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EXPLORING FRANCHISE BOARDS: A STAKEHOLDER PERSPECTIVE

By

Denise M. Cumberland  
B.A., University of Maryland, 1980  
M.A., University of Maryland, 1982

A Dissertation  
Submitted to the Faculty of the  
College of Education and Human Development of the University of Louisville  
in Partial Fulfillment of the Requirements  
for the Degree of

Doctor of Philosophy

Department of Leadership, Foundations and Human Resource Education  
University of Louisville  
Louisville, Kentucky

May, 2012

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A Dissertation Approved on

January 25, 2012

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## DEDICATION

This dissertation is dedicated my father. Although his formal education ceased after 8<sup>th</sup> grade, his love for learning lasted a lifetime.

In memory of Joseph C. Cumberland, 1913 - 1975

## ACKNOWLEDGMENTS

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to complete this program has given me the courage to not just walk, but to “skip” down the yellow brick road.

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## ABSTRACT

### EXPLORING FRANCHISE BOARDS: A STAKEHOLDER PERSPECTIVE

Denise M. Cumberland

January 25, 2012

The use of franchise advisory boards, typically composed of franchisees and franchisor representatives, is common practice in domestic and international franchise systems. Because effective board collaboration requires teamwork, understanding the stakeholder relationships on these boards is critical at the beginning of any board evaluation or organization development (OD) assessment. One of the goals of OD is to help organizations ensure groups, such as boards, function synergistically.

Based on stakeholder and board governance literature, a four-quadrant grid for classifying franchise board relationships was proposed. This typology suggested that franchise board relationships could be classified based on which of the four normative governance processes were emphasized – partnership (franchisors and franchisees dedicated to working together), supporters club (franchisors and franchisees aligned to provide a united front to external audiences), political (franchisors and franchisees concerned with representing specific interests), or monitoring (franchisors and franchisees focused on compliance). Depending on which frames of governance the board favors, the relationships can be categorized as one of the following: antagonists, agents, allies or activists.

Qualitative research methods included two phases to provide triangulation. First, 22 board members from multiple industries were interviewed. Second, a comparative case study of three franchise boards was conducted over an eight month period. Four research questions framed the study. The first question addressed why franchise boards form, a topic documented in practitioner literature, but with little empirical validation. Findings revealed that the motives for board formation do align with practitioner literature, with one exception. The second research question explored how franchisee and franchisor board members view the roles of the board. The data indicated that franchisors and franchisees agree on some of the reasons, but differ in some respects on the purpose of the boards. This suggests an issue that organization development efforts could help address. The third question investigated how boards were structured. Findings revealed some basic commonalities between different types of boards, be they franchise advisory councils, independent boards, or ad hoc groups. Importantly, however, variation in some key governance processes did have an impact on board member attitudes. The fourth research question examined what types of relationships exist. Findings supported the four grid typology, suggesting organization development practitioners have a practical tool for classifying franchise board relationships as antagonists, agents, allies or activists. The final chapter of this dissertation discusses this study's implications for franchise organizations. In addition, a series of recommendations are offered to help develop allied and activist stakeholder board relationships that foster trust and open communication exchanges.

*Keywords:* Stakeholders; Franchise Boards; Organizational Development

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## CHAPTER I

### INTRODUCTION

Franchising is an \$800+ billion, expanding industry in the United States. This business format has played a major role in shaping the U.S. economy over the last 50 years. Franchise businesses make up 11% of the U.S. private-sector economy and there are over 800,000 franchised businesses in the United States (International Franchising Association, 2007). Despite a weak lending environment, franchising continues to attract individuals with an entrepreneurial spirit seeking to establish and manage their own businesses. The International Franchising Association (IFA) projects a 2.5% growth rate in the overall number of franchise units in 2011. The importance to the economy is not just in the livelihood of the franchise business owner, but also in the more than 9 million jobs that are created from franchising enterprises. In the current environment, in which unemployment tops 9% (Bureau of Labor Statistics, 2011), a strong franchise business model can assist in the U.S. economic recovery.

The franchisee–franchisor relationship is interdependent. Each partner relies on and influences the other across multiple domains, including marketing, operations, finance, human resources, and governance (Morrison, 1998). Understanding what detracts and enhances that relationship has been the subject of much academic research (Baucus, Baucus, & Human, 1996; Cochet, Cormann, & Ehrmann, 2008; Kidwell, Nygaard, & Silkoset, 2007; Tikoo, 2005). One mechanism promoted to enhance the relationship between franchisees and franchisors is the establishment of franchise

advisory councils, and another is the formation of independent associations. These councils and associations encourage participatory engagement and allow franchisee voices to be heard (Dandridge & Falbe, 1994). Although there is a substantial body of practitioner literature on franchise boards, there is a more limited pool of scholarly research.

### **Background of the Study**

The International Franchising Association (IFA), a trade association representing the franchise industry, recommends that franchisors establish councils early in their life cycle (Wulff, 2005). The IFA reports that the majority of their franchisor members have established advisory councils and over 90% of the council participants are elected by fellow franchisees. In addition to sponsored councils that the franchisor initiates, independent franchise associations also exist. These independent associations are created by franchisees to leverage their collective strength to influence the franchisor (Sniegowski, 2010). These two types of entities, along with ad hoc councils formed by franchisees, have continued to form as franchising systems have proliferated over the last 20 years (Barkoff & Green-Kelly, 2006). In this study I use the general term *franchise board*, except when it is necessary to indicate relevant differences between the various structures.

Current understandings of why boards form and the roles these boards play are based largely on normative guidelines provided by franchise consultants (e.g., Evan Carmichael Consulting; John Powers; Ingage Consulting), franchising attorneys (Barkoff & Green-Kelly, 2006; Gurnick & Wharton, 2000; Karp, Norman, & Stafford, 1999; Spandorf & Barkoff, 2003) and trade associations (e.g., IFA; American Franchise

Association, Coalition of Franchisee Associations). From a scholarly standpoint, the field's knowledge is limited to a few studies conducted outside the United States (Cochet & Ehrmann, 2007; Croonen, 2008; Grunhagen, DiPetro, Stassen, & Frazer, 2008; McCosker, Frazer, & Pensiero, 1995) and Dandridge and Falbe's (1994) U.S. study.

In a recent study on independent franchise associations, Lawrence and Kaufman (2010) argued that multiple ownership changes result in franchise associations assuming the role of brand stewards, whereby rank-and-file franchisees identify more closely with the association than with the franchisor. The qualitative inquiry by Lawrence and Kaufman focused solely on independent associations and franchisee perspectives. The current study extends these scholars' efforts by layering in franchisor viewpoints and broadening their study's scope to include advisory councils established by franchisors and ad hoc councils formed by franchisees. Whereas Lawrence and Kaufmann used organizational identity theory as their framework, this study presents stakeholder theory as a promising avenue to identify the types of relationship that may exist within these boards. Stakeholders are those groups or individuals who are impacted by the organizations decisions (Freeman, 1984). In the case of a franchise board, the stakeholders would include the franchisees and the corporate staff referred to as the franchisor.

### **Statement of the Problem**

Drucker (1974) suggested that a commonality among boards is that most of them function poorly. In providing his recommendations for nonprofit boards, Drucker (1990) argued that membership on a board should not be viewed as power, but as responsibility. Franchise boards can influence operating decisions, channel communication to the

broad franchisee constituency, ignite tensions between franchisees and the franchisor, or collaborate on strategic opportunities to grow the brand. A good deal of time, money, and resources are dedicated by both franchisees and franchisors to running franchise boards. Taken together, Drucker's (1974, 1990) research suggests that periodic assessments are needed to ensure that there is not a gap between the intentions and the functioning of the board.

Organizational development (OD) practitioners can offer a deeper understanding of boards to improve communication, enhance collaborative problem solving, and build a trusting environment whereby productive conflict leads to synergy versus dissension. But before solutions can be offered, a deeper understanding of board dynamics is needed. I relied on Swanson and Holton's (2009) OD philosophy that whole system change must first begin with a commitment to in-depth study of the group.

When a franchise advisory board is recognized as a group that is designed to achieve certain objectives, periodic evaluation is needed to examine how well the group is functioning. Five components characterize groups: goal clarity, task structure, group composition, team functioning, and performance norms (Cummings & Worley, 2009). Each of these group behaviors influences franchise-board interactions and effectiveness.

It is common for groups to function without clear unity around their purpose, roles, or decision-making rights (Parker, 2006). The first question an OD practitioner will ask is whether franchise board members are in alignment on the roles that the board plays. If franchisor board members expect the board to function as a sounding board, and the franchisee board members view the board's role as a decision-making body, conflict can occur.

Task structure focuses on coordination and regulation (Cummings & Worley, 2009). Franchise advisory board tasks may vary depending on the board's mission, but one common theme is communication to the rest of the system. How the task of communication is handled and regulated can facilitate or impede the board's ability to function effectively. How do franchisors and franchisees agree on the messages to be shared with the rest of the system? Which group is accountable for sharing this information? OD practitioners understand that these questions can help assess the franchise board's effectiveness as a representative body.

Because the composition of a franchise board is frequently established by elections, there is strong probability the group will vary on key dimensions. Board members, for example, may be multiunit operators or single-unit operators, or they may be second-generation franchisees or relatively new to the world of franchising. In addition, board members are likely to vary on demographic variables such as age, education, and socioeconomic status. All of these differences can impact group dynamics.

How the group functions as a team is a fourth aspect of behavior that warrants analysis in an OD assessment. Synergistic groups are able to identify problems quickly and accurately and generate a larger number of quality solutions (Berry, 2010). Much of OD is focused on helping groups develop participation patterns that capitalize on capturing multiple perspectives that lead to consensus building. Franchise advisory boards, like all groups, can become victims of groupthink, domination by an individual with a personal agenda, or mired in nonessential discussions to the task at hand.

The fifth component of analyzing groups focuses on performance norms, which reflect how members believe they should behave (Cummings & Worley, 2009). One of the most relevant aspects of franchise board members' behavior is the implicit method that is used for decision-making. Franchise boards may not have explicit voting rights, yet over time the franchisor has come to rely on the board's nonbinding vote to decide whether to pursue initiatives. This implicit voting right may cease to exist if the franchise is sold and the new owner opts not to embrace the voting approach. OD practitioners must learn what performance norms exist and help the group develop alternative norms if necessary.

Unfortunately, it is too easy for consultants to offer generic solutions without spending enough time trying to understand actual group dynamics to uncover the root of the problem. Too often the result turns out to be a Band-Aid when surgery is needed, or vice versa. OD interventions with franchise advisory boards should examine the roles, structure, composition, relationship, and performance norms that characterize the group.

The impact of franchise advisory boards' actions can be far-reaching. The impact of the board is not just on the lives of those on the board but also carries over to other franchisees whose interests are represented. How franchisee and franchisor board members work together becomes critical to determining the effectiveness of the board. One of the franchisee board members interviewed for this study articulated the relationship issue when he commented:

The issue with franchise boards is mistrust. We spend a lot of time and money going nowhere. We ultimately get somewhere, but it takes too long. We should grow franchisees that sit on these boards and not just let them be puppets of some type of anarchy scheme. We are all human, but we have to do a better job of building trust. We have to put more in the trust bank account every day. You



can't say we have trust, and then go out and say the other side is dumber than a box of rocks. (franchisee personal communication, February 8, 2011)

### **Purpose of this Study**

Consultants and managers often practice OD to help groups improve performance. This study will explore the attitudes and behaviors of both franchisees and franchisors that serve on franchise boards. The objective of this research is to develop a conceptual model for understanding the stakeholder relationships that exist within these groups. By creating and testing a conceptual model that can be used early in the OD process, franchise boards will have an assessment tool to help calibrate what type of relationship is operating. Another aim of this study is to facilitate OD efforts that offer meaningful interventions to develop open and transparent franchise boards that create value for both the franchisor and the franchisees.

### **Research Questions**

Using qualitative methods, this study explores stakeholder dynamics that operate within franchise advisory boards. Several research questions guide this study.

1. Why do franchise advisory boards form?
2. How do franchisee and franchisor board members view the roles of these boards?
3. How are boards structured?
4. What types of stakeholder relationships exist?

The first question examines why franchise boards form and seeks to confirm or disconfirm the theories that are espoused by franchise consultants, franchising attorneys, and franchise trade associations. The second question is guided by the desire to understand the similarities and differences between how franchisees and franchisors view

the roles of these boards. OD practitioners must be cognizant that perceptions about board roles may vary, which impacts group relationship dynamics. Whereas Research Question 2 seeks to examine roles, Research Question 3 is interested in understanding how board structure influences the board–stakeholder relationship. Finally, Research Question 4 is an extension of the first three research questions and will emerge by examining the attitudes and behaviors of the board members.

This chapter has introduced the topic of franchise boards, framed the research problem, presented the argument for why this matters, outlined the research questions, and defined the terms that will be used throughout the document. Chapter 2 provides a literature review on the franchising business model, franchisee–franchisor relationships, and details the rise of franchise boards. Chapter 2 also systematically examines the rise and development of stakeholder theory as another perspective on corporate governance. At the conclusion of chapter 2 a conceptual framework of the types of stakeholder relationships that operate within franchise boards is proposed. Chapter 3 will introduce and explain the research methodology used to assess the model, including the sample, data collection tools, and the analytic process. The findings of the study will appear in chapter 4 and chapter 5. Finally, chapter 6 will offer an interpretation of the findings, review the conceptual model, along with implications and suggestions for future research efforts on the topic of franchise boards.

### **Limitations**

A limitation of the study is the method for selecting the franchise boards included as cases. Because franchise boards discuss confidential business information, these sessions are not open to the public. Having prior background in the industry, I relied on

my contacts in the industry to help introduce me to two franchisors who agreed to grant me access to their meetings and conference calls. With respect to my third case, I cultivated the relationship of one of the franchisees whom I had interviewed. So the sampling was purposeful and “snowball” (Shadish, Cook, & Campbell, 2002), not random. Another limitation is the limited number of face-to-face board meetings that can be observed due to budget and timing. Some boards only meet 2 to 4 times per year, which lengthens the time involved to gather data for a doctoral student engaged in research. Furthermore, these board meetings are often held in distant cities requiring travel expenditures and the researcher’s ability to negotiate time away from work and other responsibilities.

### **Definitions**

Throughout this dissertation, the following six terms will be used as defined below: *franchisor*, *franchisee*, *franchise board*, *independent association*, *franchise advisory council*, and *ad hoc council*.

**Franchisor:** A company that allows an individual (known as the franchisee) to run a location of its business. The franchisor owns the overarching company, trademarks, and products, but grants to the franchisee a limited right to run the franchise in return for agreed-upon fees. Franchisor board members are employed by the franchisor.

**Franchisee:** An individual in a franchising agreement is granted the right to use a business’s trademarks, associated brands, and other proprietary knowledge to open a branch. In addition to paying a franchising fee to the underlying company, the franchisee must also pay a portion of its revenues to the franchisor. Franchisee board members may be elected, appointed by the franchisor, or self-elected to serve on franchise boards.

**Franchise Board:** This term is being used to represent all types of franchise groups that operate in a franchise system that are unified by one or more identifiable goals.

Specifically in this study the term will represent independent associations, franchisor sponsored advisory councils, and ad hoc franchisee groups.

**Franchise Advisory Council:** A group typically comprised of franchisees and possibly representatives of the franchisor that is sponsored by the franchisor. Members may be appointed or elected.

**Independent Association:** A group almost always formed by franchisees to represent franchisees with or without support from the franchisor. These may or may not be incorporated, but typically these groups rely on membership dues. Franchisors may or may not recognize these entities.

**Ad Hoc Council:** A self-selected group of franchisees that forms to address specific goals. Franchisors may or may not be invited to participate.

## CHAPTER II

### LITERATURE REVIEW

#### **Introduction**

Academic interest in franchising has focused on explaining the firm's motivation for franchising, primarily using agency theory or a resource scarcity perspective (Elango & Fried, 1997; Kaufmann & Dant, 1996; Stanworth & Curran, 1999; Tracey & Jarvis, 2007). These various theoretical frameworks have focused on control and autonomy as the rationale for franchising business forms. More recent academic interest, however, has tapped into the relational aspect of franchising, which offers additional understanding for franchisor and franchisee motivations (Watson & Johnson, 2010). Using these theoretical frameworks to understand why firms and individuals pursue this business format provides insight into how each party values and judges the relationship.

Scholars of OD argue that the ability of groups to draw on formal power, critical resources, network links, and discursive legitimacy indicates a need for frameworks and models to assess how mindsets are established, power relationships are managed, and common ground among stakeholders can be forged (Marshack & Grant, 2008).

Understanding what detracts and enhances the interdependent franchisor–franchisee relationship has been the subject of numerous empirical investigations (Baucus, Baucus, & Human, 1996; Cochet, Cormann, & Ehrmann, 2008; Kidwell, Nygaard, & Silkoset, 2007; Tikoo, 2005). Franchisors expect, among other things, for franchisees to grow sales, abide by their contractual commitments, share insights from the field, be a source

of new ideas, and expand their operations by building new units (Fulop & Forward, 1997).

Franchisees expect training, procedures, and technical expertise on a host of subjects, usually including marketing, operations, human resources, legal expertise, and distribution (Morrison, 1998). Franchisees also consider themselves entrepreneurs rather than employees of the franchisor; therefore, they desire some level of participation in the decision-making process (Dandridge & Falbe, 1994; Dant & Nasr, 1998; Fulop & Forward, 1997).

Mechanisms that afford franchisees participation in the system include franchise associations, boards, and councils. The IFA, a trade association representing the franchise industry, recommends that franchisors establish some form of board early in their lifecycle. The IFA's first published book on the subject, titled *How to Organize a Franchisee Advisory Council*, was published in 1979 and has been revised three times (Wulff, 2005). The IFA reports that the majority of its franchisor members have established advisory councils, and over 90% of the council participants are elected by fellow franchisees. In addition to sponsored councils that the franchisor initiates, independent franchise associations also exist. These independent associations are created by franchisees to leverage their collective strength to influence their franchisor (Sniegowski, 2010).

Chapter 2 is divided into six sections. The first section describes the search process, including data bases searched and key words used. The second section reviews motivations for franchising, with subsections reviewing theories for why firms pursue franchising and explaining why individuals choose this business format. The third

section reviews the literature on franchisor–franchisee relationships. This section contains a subsection on conflict, examines detractors and enhancers to the relationship, and establishes the need for mechanisms to provide franchisees with a voice in organizational decisions. The fourth section covers the historical background of franchise boards, as well as the roles and responsibilities of these boards. The fifth section introduces stakeholder theory as a means for understanding the sociopolitical aspects of organization decision-making and proposes that this construct be used as part of an OD diagnostic approach to help franchise boards achieve greater collaboration. In the sixth section, I offer a conceptual model that provides a typology of stakeholder cultures that franchise boards operate within.

### **Literature Search Process**

The initial database search on franchise advisory boards, franchise independent associations, and franchise advisory councils produced only four empirical studies from scholarly journals on these topics. Databases referenced included Business and Management Practices, Business Source Premiere, ABI Inform Database, EBSCO Academic Search Premiere, ERIC, ProQuest Direct, ProQuest Dissertations and Theses (Digital Dissertations), JSTOR, and the Social Sciences Citation Index Contact. The following key words were used in the initial search: franchise advisory councils, franchise boards, franchise associations, franchise independent associations, franchisee-franchisor relationships and franchising. Over the past 12 months I searched these databases multiple times and uncovered only two additional studies. I contacted the author of an article (in press at the time) on the subject of franchise-independent

associations (Lawrence & Kaufmann, 2010). The reference list from this article indicated no additional empirical studies in my research area of franchise board dynamics.

Because of this, I broadened my search to include nonprofit boards. For this search I used the following key words: nonprofit boards, nonprofit advisory boards, nonprofit board roles, nonprofit stakeholders, corporate governance theories, boardroom processes, boardroom culture, and board effectiveness. The investigation of nonprofit boards focused on the perception of the roles and responsibilities of board members. This literature provided a basis for identifying which roles of nonprofit boards could be mapped onto the roles of franchise advisory boards. Understanding how the roles and responsibilities are defined within boards offers insight into the type of stakeholders these boards represent. Making the assumption that these franchise boards are designed to help business performance, OD can play a key role in helping franchisors manage the stakeholders' relationships with their boards. The purpose of this literature review then shifted to address a different conceptualization of interdependent relationships using stakeholder theory to develop a conceptual model for understanding franchisor–franchisee board relationships.

### **Motivations to Franchise**

The Singer Sewing Machine company is credited with introducing the first franchise system into the United States in 1851 (Luxenberg, 1986). Struggling for cash, Singer sold area licenses granting individuals the right to sell the company's sewing machines in specific geographic regions. The individuals who operated as dealers had exclusive rights to territories and discovered that this form of self-employment was quite lucrative. Sales of sewing machines increased, but the company itself continued to



struggle because of inadequate distribution controls (Luxenberg, 1986). Although Singer eventually repurchased the rights they had sold to dealers, the concept of franchising was born.

Franchising in the 21st century has changed dramatically, but the concept continues to attract organizations and individuals. Franchising literature has heavily explored the driving factors behind the firm's rationale for entering into these licensing agreements. There is a small base of empirical literature that helps provide an understanding of the motivational incentives for individuals to pursue this line of self-employment.

### **Why Firms Franchise**

#### **Agency theory**

One framework offered to explain why firms' franchise, agency theory, suggests that operational convenience influences this decision (Combs, Michael, & Castrogiovanni, 2004; Dant & Nasr, 1998). Agency theory assumes that, to secure protection from opportunistic behavior by employees, agents will be motivated to oversee the principal's financial interests (Jensen & Meckling, 1976). Rubin (1978) argued that corporate employees in distant geographic locations are more likely to attend to their self-interests versus the interests of their employer, thereby inhibiting productivity. Organizations pursuing geographic expansion, therefore, became proponents of franchise operations because this left the monitoring of employees in distant geographic regions to the franchisee. Franchisees, it was assumed, would act as agents based on a strong incentive to maximize labor efficiency, thereby operating in the best interests of the franchisor (Tracey & Jarvis, 2007).

If agency theory operated in pure form, the franchisor would take a hands-off approach and allow franchisees to operate with minimal supervision because the assumption of similar interests would ensure compliance with the contract. In a study of U.S.-based franchisees in the Middle East and Africa, however, Dant and Nasr (1998) found that franchisors' and franchisees' goals did not align, and this caused dissension in the relationships. Franchisees motivated by the need to profit took a different view of pricing and operations than their franchisors. Because franchisors received payment from royalties, they focused more on driving top-line sales (gross sales before expenses are taken into account), showing less concern for franchisees' bottom-line net earnings.

Dant and Nasr's (1998) research suggested that franchisees with a vested interest in short-term profit were more likely to engage in opportunistic behavior such as "free-riding" as a means to generate cash flow. Free-riding occurs when franchisees forgo asset upgrades or reduce the quality of the services or products offered in an effort to reduce out-of-pocket expenditures. Franchisors, concerned about the reputation of the brand, engage in control techniques to ensure franchisee compliance and reduce free-riding behavior (Dant & Nasr, 1998; Pizanti & Lerner, 2003).

Agency theory, therefore, evolved to suggest that franchisees must now be monitored to ensure that they are not engaging in deceptive practices (Dant & Nasr, 1998). The franchisor establishes control mechanisms to provide oversight or hires outside agents to monitor franchisee behavior (Castrogiovanni, Combs, & Justis, 2006; Kidwell et al., 2007). Under these definitions of agent and principal, the legal contract between the franchisor and franchisee becomes the dominant element in the relationship.

When franchisors ramp up monitoring mechanisms they undermine the economic benefits associated with franchising and emphasize their dominant power in the relationship. Power wielded on the franchisor side may in turn create the need for franchisees to rebalance the equation (Combs et al., 2004; Dant & Nasr, 1998). Franchisees, although in a weaker position, can still exercise power by withholding valuable information from the franchisor, refusing to participate in a new program, withholding royalties, or even taking legal action (Fulop & Forward, 1997).

### **Resource dependency theory**

Another widely held perspective on why firms choose the franchise business format stems from resource dependency theory. Franchising offers firms that have limited access to capital a method for more rapid geographic expansion (Fulop & Forward, 1997; Oxenfeld & Kelly, 1968). Beyond capital, the franchisees can bring insights about local market preferences, knowledge about zoning regulations, information regarding the labor pool, and their own managerial skills to the enterprise.

Theorists Pfeffer and Salancik (1978) suggested that all organizations are dependent on external groups in the environment and must obtain resources from these groups to survive. Initially, resource dependency theorists postulated that the franchising business format would be a temporary organizational structure because once a franchisor had sufficient capital, he or she would buy back the units from the franchisee, converting them to company-owned outlets (Fulop & Forward, 1997). But between 1970 and 1990, the percentage of franchised outlets (80%) remained the same, and today that percentage has crept upwards.

Through the resource dependency lens, the franchisor–franchisee relationship is no longer tethered exclusively to the contract. Power does not rest solely with the franchisor but shifts depending on the situation. The notion that power can shift, even in a vertical relationship, suggests that rather than a goal of compliance, perhaps the franchisors should aim to initiate processes that influence franchisee satisfaction. In a study of furniture dealers in a distributor relationship, Gassenheimer, Calantone, Schmitz, and Robicheaux (1994) found that satisfied partners are less likely to engage in power games or embrace a quid pro quo mentality.

### **Theoretical Combinations**

Some theorists have suggested that both agency and resource dependency theories help explain an organization's decision to franchise (Fulop & Forward, 1997). Rather than an either–or scenario, these authors argue that the decision to franchise will vary and may depend on financial, behavioral, and situational factors.

A recent study by Castrogiovanni et al. (2006) lends support to the idea that both agency and resource scarcity frameworks apply to franchising. Findings from their study of 102 franchisors over a 21-year period suggested that during a firm's early years, when geographic expansion was a core objective, resource scarcity provided the explanation for franchising. After approximately 10 years, however, firms achieved sizeable scale and shifted toward corporate ownership. The level of franchising picked up again on average when the firm reached the 21-year mark. The return to franchising in a firm's later years was not driven by resource scarcity needs, but by the high cost of monitoring. This trend lent credence to agency theory as the viable rationale for franchising, and Castrogiovanni

et al. concluded that the dominant frames for why firms franchise, agency theory and resource dependency theory, shift over time.

In summary, although the theoretical debate is likely to continue over why firms franchise, prospective franchisees may find it beneficial to attempt to understand firms' motives. If prospective franchisees are seeking a high level of support, they may not flourish in a franchise system during the early life cycle, when the franchisor cannot offer a deep level of support services. Individuals with a great deal of experience, on the other hand, may not want the level of handholding offered by established franchise firms and may find newer franchise systems a more optimal environment. Likewise, franchisors may want to better understand why individuals are pursuing a franchise venture to ensure they can meet the prospective franchisees' needs.

### **Why Individuals Choose Franchising**

Early franchising literature suggested that the trademark of the brand drew individuals into the franchise realm, along with a "package" offering training and assistance, thereby decreasing the individual's risk of pursuing a business as a solo entrepreneur. The seven distinct categories that emerged from Izreali's study (as cited in Peterson & Dant, 1990), included: (a) lower development costs, (b) established brand name, (c) lower operating costs, (d) less management involvement, (e) greater independence, (f) better investment, and (g) training.

Peterson and Dant (1990) sought to validate Izreali's list of reasons for franchising. Using franchisees from a service based organizations, Peterson and Dant partially supported Izreali's findings in that the top reasons to pursue franchising included: (a) an established brand name; (b) greater independence, and; (c) training

provisions from the franchisor. Peterson and Dant's research, however, refuted Israeli's finding that owning a franchise would result in "lower operating costs" and also disagreed with the assessment that there would be less managerial involvement from the franchisor. External events during the years between the two studies may have mitigated those advantages. The cost of franchising would have risen as franchisors added more rules, and monitoring may have escalated.

Ease of entry appears to be at the heart of the decision to pursue a franchise. This is not surprising given the high risk involved in becoming a business owner. Also, for those individuals who wish to be self-employed and do not have the business idea or skill set, franchising offers the opportunity to potentially overcome these deficiencies by purchasing a ready-to-go business format. In addition to the rational economic reasons, on a more emotional level, the desire for autonomy sparks individuals to pursue franchising. Stanworth and Curran (1999) suggested that franchisees' motivations may lie somewhere in between profit and self-actualization.

Although greater independence is a key motivator, there is little argument that when individuals pursue a franchise operation they have traded some level of autonomy by signing a contract with the franchisor. Franchisees must abide by contractual specifications and accept conditions imposed by the franchisor, in addition to paying a portion of their earnings in the form of royalties.

Social exchange theory suggests that although franchisors and franchisees are motivated by self-interest, they recognize the need for cooperation for the relationship to be mutually beneficial. Harmon and Griffiths (2008) presented a conceptualized framework that suggested that franchisees define the value of the franchise relationship as

a trade-off between the franchisees' perceived net value of the tangible and intangible benefits of belonging to this relationship versus the perceived costs of being in the relationship. The tangible benefits can be defined as financial performance outcomes, whereas intangible benefits are associated with the franchisee's perception that the franchisor is flexible, values the franchisee's contributions, and shows restraint in its use of power. These intangibles become the seeds for discontent in the relationship and can pit the franchisor and franchisee against one another. The next section explores the potential areas for conflict in the relationship.

### **The Franchisor–Franchisee Relationship**

The franchisor relies on franchisees to execute the brand in a consistent manner. Customers typically do not know if an organization is corporate owned or franchisee owned. Franchising, therefore, requires a high need for coordination between the parties to ensure consistency for the consumer. Because franchisees are not employees who can be fired, and because the termination of a franchise contract is often a lengthy, time-consuming process, franchisors must collaborate with franchisees to maximize their performance and profitability (Combs et al., 2004; Spinelli & Birley, 1998). How the franchisor–franchisee relationship is both governed and nurtured has received significant attention by researchers over the last 30 years. In 1980, Guilitan, Rejab, and Rodgers found that coordination between franchisors and franchisees was more likely when the franchisee believed that he or she had a part in the decision-making process and when the franchisor's communication with franchisees was perceived as useful.

Research since 1980 continues to support the finding that franchisee satisfaction is enhanced when franchisees have frequent contact with the franchisor and believe their

contributions are valued. A study of 162 fast-food franchisees by Gassenheimer, Baucus, and Baucus (1996) revealed that communication promoted goal alignment, positively impacted satisfaction, and reduced the amount of opportunism exhibited by the parties. Similarly, Spinelli and Birley's (1998) study among 421 U.S. franchisees demonstrated a positive correlation between franchisee satisfaction and goal alignment and adequate franchisor services. Studies on why franchisees leave the system have also linked poor communication to disruptive franchisee exits (Frazer & Winzar, 2005). Weaven, Frazer, and Giddings's (2010) study of Australian franchisees and franchisors supported the value of communication towards contributing to a positive relationship between the franchisee and franchisor. Based on interview data, these authors argued that franchisees desired to be their own boss and therefore wanted a high level of involvement in decision-making processes.

Communication and a voice in the decision-making process are not the only areas that have led to tension in the franchisor–franchisee relationship. Considerable academic attention has focused on identifying other problems that arise in this interdependent business format.

### **Areas of Conflict**

Relationships of all types are prone to conflict. Franchising scholars have attempted to pinpoint the issues that derail the relationship to spawn ideas for minimizing dissension, as well as resolving disagreements once they surface. At the forefront of these investigations is the issue of autonomy versus control. White's (2010) study of fast food franchisees found that systems providing a higher level of autonomy to franchisees were positively correlated with a higher degree of trust in the franchisor–franchisee



relationship. Systems with strict formal controls, on the other hand, decreased franchisee morale and were correlated with lower levels of trust. Lack of trust has been linked to noncompliance, which impacts financial profitability (Davies, Lassar, Manolis, Prince, & Winsor, 2009).

Previous research has shown that the longer franchisees are in the system, the more independence they crave (Dant & Gundlach, 1998; Gassenheimer et al., 1996) and the more they associate success from their own efforts as opposed to the franchisor's brand name (Grunhagen & Dorsch, 2003). Recent research by Tikoo (2005) added credence to prior studies on control and autonomy. Using a U.S.-based mailing and business services franchise system, Tikoo found that as franchisees became less dependent on the franchisor, they tended to resent the franchisor's recommendations. When franchisees had a higher level of dependence on the franchisor, they were less likely to perceive tension and conflict when the franchisor recommended actions.

Research on franchisee dependence, however, has tended to produce conflicting findings. Morrison's (1998) study of franchisee satisfaction found that although franchisees desired to have input, they craved more, not less, contact and links with the franchisor, at least in some domains. Dant and Gundlach (1998) also found that the relationship between autonomy and dependence was more complex than previous research had suggested. These scholars discovered that the franchisees' desire for autonomy was dependent upon the level of competition, their business success, and their level of multi-unit ownership. In their empirical study of 176 fast food franchisees using personal interviews and structured questionnaires, franchisees in low-level competitive environments, those owning multiple units, and those with a high concern about growing

their market share were more likely to crave franchisor involvement and less likely to seek autonomy.

Although the amount of autonomy franchisees desire may vary by domain, the issue surrounding autonomy impacts the brand name when franchisees deviate from operating standards. This question was addressed by Cochet et al. (2008) in a study of German franchisees operating within 11 different franchise chains. Their study found that franchisors tended to embrace more relational forms of governance to address compliance issues when their franchisees had a higher level of autonomy. Relational governance in the study was defined as the “unwritten codes of conduct, which safeguard exchanges against potential conflicts” (p. 53). Cochet and Ehrmann (2007) argued that decentralization, which grants franchisees more autonomy, can work effectively as long as relational governance norms are in operation.

### **Reframing the Relationship**

A classic OD problem occurs when an organization is decentralized and there is an attempt to force change from a hierarchical structure (Moss-Kanter, 2006). As Galbraith (1954) noted, power displayed on one end establishes the need for countervailing power to arise on the other end. One OD solution for breaking down the political silos that divide organizations is to create communities (Moss-Kanter, 2006). A community model suggests a willingness to abide by the rules governing an organization that is based on collaboration versus command and control hierarchies.

Effective communities of practice in organizations can increase knowledge transfer, identify subject-matter experts, and foster a collaborative environment for employees (Wenger, 1998). These communities may be employer sponsored or created

by a group of people with shared interests (Fisher & Bennion, 2005). An exploratory study of 22 employee advisory boards established by small, blue-collar worksites found that how the board formed was not associated with the level of enthusiasm but that those boards with higher levels of enthusiasm showed more participation by employees than worksites with less enthusiastic boards (Thompson et al., 2005).

One form of community in a franchise system is the franchise advisory board. Although today these boards are viewed as mechanisms to help foster collaboration, the roots of these boards arose from discord and distrust. The next section of this paper addresses the historical background of franchise boards and discusses their roles and responsibilities.

## **Franchise Advisory Boards**

### **Historical Context**

The first independent franchise associations were created in the 1970s by franchisees that banded together to battle franchisors (Luxenberg, 1986). By the end of the 1970s there were over 40 independent franchise associations in the US (Luxenberg, 1986). In their early days these franchise associations were compared to labor unions based on their message of “protecting franchisees’ rights” against the large franchisor.

One of the first independent associations was the Midas Dealers Group, organized by Harold Forkas, a successful Midas automotive shop dealer. Forkas ignited fellow franchisees to form an association to protect their interests against future ownership changes. Management at Midas did not initially recognize the association led by Forkas. After trying and failing to create their own association, Midas’s corporate management ultimately decided to recognize the Forkas-led association (Luxenberg, 1986).

Independent franchise associations, such as those established for the franchisees who operate Midas Muffler Dealerships, Holiday Inn Hotels, and Kentucky Fried Chicken restaurants, are still in existence today. These independent associations do not have legally protected collective bargaining power and cannot strike, but over the years the franchisees in many of these organizations have negotiated a variety of rights to ensure that their input is heard.

A study by Lawrence and Kaufmann (2010) acknowledged the lack of research on the subject of formal franchise organizations. They reported that 12 of the 20 largest franchise systems have active, independent franchise associations, which are defined as entities that function separately from the franchisor, often funded by dues paying members. Their study, however, did not address the vast array of franchise boards or councils that are appointed by franchisors that serve in an advisory capacity. Lawrence and Kaufmann's qualitative study also does not address ad hoc franchisee groups that are initiated by groups of franchisees that may or may not include the franchisor as part of the membership. Furthermore, their scholarly research was based only on franchisee interviews and did not examine the attitudes of franchisors.

In practitioner literature, numerous examples can be found to demonstrate how franchise boards have influenced franchisor decisions. Franchisee attorney Andrew Selden notes that "any group can influence decision-making by another, by creating a big enough fuss" (Sniegowski, 2010, p. 1). The Dunkin' Donuts Independent Franchise Owners are credited with forcing the resignation of the firm's chief legal officer (Sniegowski, 2010). As a result of pressure from the Wendy's franchise association, a

new CEO was appointed in 2007. The new CEO for Wendy's came from the ranks of the franchisees (Sniegowski, 2010).

In response to the rise of independent associations, which occurred when cracks in the relationship have already formed, the IFA and many books in the field of franchising (e.g., Borian & Borian, 1987; Khan, 1999; Kinch & Hayes, 1986) all stress that franchisors need to create advisory councils early in the life cycle of the system. The IFA recommends that franchisors rely on these councils to keep abreast of what concerns franchisees have, gather know-how from the field, and provide a mechanism for horizontal communication versus relying on a top-down approach (Wulff, 2005). Franchise boards are one OD solution that can facilitate linkages between the franchisor and franchisees.

The IFA recommends that these boards be created as a joint venture with franchisees and that members be elected by their peers instead of being appointed by the franchisor (Wulff, 2005). Bylaws, which detail the eligibility, termination process, hierarchy, and roles of members of the council, are also considered critical. Though the exact number of recognized franchisor advisory councils is not available, the IFA indicates that "the vast majority of their members have established advisory councils" and "more than 90% of the advisory councils have their members elected by franchisees, rather than appointed by the franchisor" (Wulff, 2005, p. 4).

In the one quantitative study located on the subject of franchise boards in the United States, Dandridge and Falbe (1994) surveyed members of the IFA to determine if fast-growing franchise systems would use advisory councils to reduce conflict and encourage entrepreneurship and innovation. Although the study did not find support for

the theory that a franchise advisory council was used by fast-growing systems as a means to reduce conflict, there was a positive correlation that suggested that advisory councils were used as a way to encourage franchisee innovation.

In an empirical study of franchise advisory councils conducted in Australia (McCosker et al., 1995), a total of 88 franchisors and 80 franchisees from a range of industries responded to a mail survey. Sixty-five percent of franchisors ( $n = 57$ ) indicated they had some form of committee, and 88% of these were franchise systems that had been in existence for more than 5 years. The industries varied widely. Although franchisees tended to agree on the roles of the board, they were not aligned with franchisors on their power to change operations. Franchisees rated their level of decision-making on boards higher than franchisors rated the franchisees' decision-making input (McCosker et al., 1995).

A case study of four Dutch drugstore franchise systems found the presence of a franchise advisory council provided franchisees a high level of participation and influenced the level of franchisees trust in the system (Croonen, 2008). A correlational study, conducted among German franchisees (Cochet & Ehrmann, 2007), found franchise councils were more prevalent in systems where the franchisor had more control over the operations of the chain. In addition to supporting Croonen's argument that councils foster franchisees' participation in decision-making, Cochet and Ehrmann's (2007) study found councils provided a tool to monitor the franchisor. In this respect, trust may be garnered because councils serve as watchdogs that protect franchisees interests.

A study by Grunhagen et al. (2008) compared the services provided by franchisors to franchisees in Germany and the United States. Systems with franchise

advisory councils were found to be less associated with system disruptions. Disruptions were defined as legal disputes or when unit ownership changes occurred or units closed.

In a qualitative study of franchise associations, Lawrence and Kaufmann (2010) found that these structures are an important identity mechanism for inter-franchisee relationships by providing collective identity among franchisee members. These associations were also found to serve as stewards of the brand, providing stability in the face of frequent ownership changes. Finally, successful associations were able to reframe their relationships with the franchisor from combative to cooperative depending on the situation.

Because franchise advisory organizations function as strategic alliances, OD efforts may help the boards achieve synergy. At the outset of any OD effort, however, it is necessary to understand the roles and responsibilities of the franchise advisory board to assess how the board is functioning.

### **Roles and Responsibilities of Boards**

McCosker et al. (1995) studied franchise councils in Australia and found that franchisors and franchisees shared five reasons for forming these groups: (a) improving communications, (b) providing feedback on marketing, (c) assisting with product and service development, (d) sharing feedback regarding customers, and (e) problem solving. Except for communication, most franchisors perceived that their boards were effectively meeting these objectives.

Several articles from the annual American Bar Association Forum on Franchising discussed the subject of franchise associations and councils. Franchising attorneys in the U.S. appear to support McCosker et al.'s findings, but also suggest that franchise

association boards serve as a monitoring mechanism to protect franchisee interests (Schumacher, 2001).

### **Nonprofit Boards**

Due to the limited number of empirical studies on franchise boards, I conducted a literature review on the roles and responsibilities of nonprofit boards. Understanding what has been learned about nonprofit boards can provide useful comparisons with the practitioner literature on franchise advisory councils to determine where parallels exist.

Over the last 15 years there has been a small but steady stream of scholarly literature devoted to the subject of nonprofit boards. Studies by Dulewicz, MacMillan, & Herbert (1995); Green and Griesinger (1996); Inglis, Alexander, and Weaver (1999); Cornforth and Edwards (1999); and Brown and Guo (2010), have each examined nonprofit-board characteristics, roles and responsibilities, and effectiveness. Although the objectives of each study varied, a common theme within this literature provides a baseline understanding of the roles and responsibilities of nonprofit boards. Each of these scholars classified the roles and responsibilities of nonprofit boards into typologies that attempted to capture the essence of specific functions. Their typologies suggested that tasks performed by nonprofit boards could be classified from three broad components up to 14 distinct categories, but the themes can be condensed into providing voice, stewardship, legitimacy, representation, and strategic direction. Figure 1 demonstrates the high degree of commonality among these scholars.

The five groups of scholars were in agreement that nonprofit boards play a role in strategy and planning, both in setting the mission and values and in providing long-range thinking. A second common theme was the role that nonprofit boards play in securing



financial resources and legitimizing the organization to the external world. Likewise, boards were seen as providing stewardship, which encompassed direction on operations of the organization, including the monitoring of programs and services. Four of the five collaborative studies specifically pointed out that boards have a key role in representing stakeholders in the community, and two articles specifically mentioned that boards provide “voice” in that they offer guidance, advice, and dispute resolution.

	Dulewicz et al. (1995)	Green & Griesinger (1996)	Cornforth & Edwards (1999)	Inglis et al. (1999)	Brown & Guo (2010)
Voice		✓			✓
Representation	✓	✓	✓		✓
Stewardship	✓	✓	✓	✓	✓
Legitimacy / Resources	✓	✓	✓	✓	✓
Strategy	✓	✓	✓	✓	✓

Figure 1. Nonprofit board classification of roles.

Practitioner data indicate that franchise boards undertake many tasks that are similar in nature to the tasks that nonprofit boards perform. In an article in *Chain Leader Magazine* (Farkas, 2010), the Vice President of Church’s Chicken, for example, indicated that his company’s franchise board had provided input and solutions on product development, marketing, and operational decisions. In addition, he credited the board with creating a brand inspection form to measure performance standards.

In *The Franchise Advantage*, Boroian and Boroian (1987) suggested that franchise councils “provide a communications link between the company and its franchisees” (p. 207). Other practitioner studies have highlighted specific benefits of franchise boards, including the sharing of ideas, promoting feedback, providing networking opportunities, and allowing for evaluation of past programs (Dwyer, 2008; Powers, 2010). Trade journals in the industry have recommended advisory councils as a mechanism that franchisors can use to help secure endorsements. The assumption is made that franchisees are often more willing to accept new ideas from fellow franchisees than mandated changes from the franchisor. The roles and responsibilities between nonprofits and franchise advisory boards parallel fairly closely as shown in Figure 2.

	Nonprofit Board Roles	Franchise Board Roles
Voice	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Representation	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Stewardship	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Legitimacy / Resources	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Strategy	<input checked="" type="checkbox"/>	

*Figure 2.* Roles of nonprofit and franchise boards.

Although franchise boards are not specifically involved in securing financial resources for the organization, the nature of the franchise relationship is economic. Franchisees provide royalties to the franchisor based on their sales. The one area of difference is strategy. Neither the limited empirical research on franchise boards nor the franchise attorney literature suggests that franchise boards typically play a role in establishing long-term strategies; rather, studies have found that boards are usually

brought in to provide input on franchisor recommendations (Barkoff, 2007; Darrin, Stadfeld, & Wulff, 1998; Ingage Consulting, n.d.; McCosker et al., 1995; Mowji, 2006; Spandorf & Barkoff, 2003; Webster, 1986).

Recent empirical research suggests that franchise boards can be an influential factor impacting the dynamics within the broader organization. In a conceptual paper on independent associations, Lawrence and Kaufmann (2010) argued that the presence of franchise associations contributes to the climate of the franchisor–franchisee relationship. These scholars suggested that the formation of an independent association may lead to stronger identification with the franchise group over the franchisor. They argued that franchise associations that form because of franchisor opportunism versus groups that form over strategic direction issues will have stronger identification with the franchise association than with the franchisor.

Franchise boards, associations and councils will each assume characteristics of communities or coalitions. Occasional disagreement is highly likely between different parties in any group, and such discord can stifle collaboration and prevent synergy. Applying a stakeholder framework may contribute to the resolution of issues by providing a method of classifying the board relationships to understand the sociopolitical environment that is operating. The next section includes an overview of stakeholder theory, a review of the internal and external debates, and an overview of various stakeholder typologies offered by scholars. The section concludes with a conceptual framework depicting how franchise advisory boards can be classified into 1 of 4 stakeholder cultures.

## **The Stakeholder Concept**

Freeman (1984) introduced the term *stakeholder* in his seminal work, *Strategic Management: A Stakeholder Approach*. In this work, Freeman defined a stakeholder as “any group or individual who can affect or is affected by the achievement of the organization’s objectives” (p. 46). As early as 1959, theorists Cyert and March acknowledged the existence of stakeholder groups when they suggested that organizations consist of coalitions organized into sub-coalitions. These scholars argued that organizations change their purpose as new interests arise and discard other interests in response to environmental forces—in essence, firms bow to pressure from some coalitions and ignore others. Organization coalition members include managers, workers, stockholders, suppliers, customers, lawyers, tax collectors, regulatory agencies, and others. When resources are scarce or uncertainty exists, these coalitions either walk away from the firm or organize and confront the organization. Cyert and March suggested that these coalitions are semi-permanent forces that often have competing demands. Firms need stability and therefore must attempt to satisfy these multiple coalitions.

Since the publication of Freeman’s work, the term *stakeholder* has become part of corporate America’s lexicon. The definition of who qualifies as a stakeholder, however, is open to various interpretations. Popular lists of stakeholders are often similar to the coalitions noted by Cyert and March (1959). Donaldson & Preston (1995) include the following groups: employees, shareholders, customers, competitors, vendors, strategic partners, the local community, and the environment. Other stakeholder theorists argue that a close relationship must exist between a firm and a coalition for that coalition to be designated as a stakeholder (Phillips, Freeman, & Wicks, 2003).

As introduced by Freeman, stakeholder theory is prescriptive in nature. Freeman (1984) argued that managers must understand the phenomenon of stakeholder groups and how they can impact the organization if they hope to respond in an effective manner. Freeman (quoted in Agle et al., 2008) argued that it doesn't make sense to talk about business without talking about ethics; he further elaborated that stakeholder theory provides organizations with an "idea about what it means to be well managed" (p. 166). This idea, however, has been a source of a great debate in the field. In particular, does the organization address stakeholder issues because it is the right thing to do, or because it is the wise business decision?

### **The Agency Theory–Stakeholder Theory Debate**

The debate between agency theorists and stakeholder theorists has raged for over a quarter of a century. Agency theory assumes a moral egoism (Hendry, 2001) on the part of both the principal (in this case the franchisor) and the agent (the franchisee) and that each will act in their own interests. To limit opportunistic behavior, organizational managers usually develop reward and governance structures to police behavior (Hill & Jones, 1992). The literature on agency theory indicates that divergent interests create one principal–agent conflict. Agency theorists argue that the firm is surrounded by efficient market forces, which allow principals and agents to freely enter and exit relationships (Fama & Jensen, 1983). Put simply, this idea assumes that if stakeholders are unhappy in the relationship they can leave the relationship. Agency theory relies on the assumption that stakeholders are not held hostage by circumstances.

Built upon the principle that the single objective of the firm is to maximize shareholder value, agency theory dates back to the 1970s. Long before the actual term

*agency theory* emerged, economist Milton Friedman contended that the only moral responsibility of managers in an organization was to serve the interests of the shareholders. Often referred to as “shareholder theory,” this philosophy was characteristic of the 1980s when free market enterprise dominated under the Reagan–Thatcher era (Hendry, 2001). Although capitalism was the driving force at the time, a spate of takeover activity was creating the need for antitakeover legislation, which began to suggest that the principal–agent relationship was not characterized by equilibrium and power was a factor in the relationship.

Freeman (1984) challenged the agency theoretical perspective by suggesting the emergence of “stakeholder groups and new strategic issues require a rethinking of our traditional picture of the firm” (p. 24). Stakeholder theory offered a competing view to agency theory. Stakeholder theorists (Hill & Jones, 1992; Donaldson & Preston, 1995) argued that agency theory ignored power differentials, which make it impossible for some agents to disengage from principals. In addition, market conditions are often characterized by friction, which sustains disequilibrium as opposed to equilibrium. Stakeholder theorists argued that other groups beyond stockholders have legitimate claims on the organization and its resources, and that firms have an ethical obligation to address these other claims (Freeman, 1984; Phillips et al., 2003).

Since 1984, hundreds of articles have been written on stakeholder theory. Critics have bashed (Steib, 2009; Jensen, 2002), while fans have hashed and rehashed (Agle et al., 2008; Phillips et al., 2003; Hendry, 2005; Jawahar & McLaughlin, 2001; Jones, Felps, & Bigley, 2007) the view that firms must cast a broader view of their mission than merely driving financial profit to shareholders. Some scholars have also attempted a

reconciliation of the two views. Hill and Jones (1992) proposed a stakeholder–agency model that explained certain behavior of the firm using a modified view of agency theory that accommodated power differentials. These theorists contended that this stakeholder–agency model was a more predictive view of how firms realign when disruption occurs due to power differentials. Shankman (1999) also argued for a theoretical integration of the two theories. He suggested that stakeholder theory was simply a broader conceptualization of the firm, whereby shareholders were one of many stakeholders (Shankman, 1999).

A 2007 Academy of Management symposium brought both agency theorists and stakeholder theorists together in an attempt to find common ground between the two perspectives. In a follow-up essay from this symposium, Freeman suggested that the “Friedman–Freeman” debate was dead and that it was no longer useful to separate questions of business and questions of ethics. He wrote,

Milton Friedman, Oliver Williamson, and Michael Jensen are stakeholder theorists . . . if one understands the spirit of their work . . . and if we have a slightly more expressive idea of businesses than have most economists, then the tensions between economists and stakeholder theorists simply dissolve. (Agle et al., 2008, p. 162)

Freeman suggested that “jointness” is in line with capitalism and that stakeholder theory is not a theory of the firm but a way to make capitalism work better. This idea of jointness indicates that organizations know that to maximize shareholder value they must recognize others who can help them deliver the goods (Agle et al., 2008).

Jensen (Agle et al., 2008) was less conciliatory, but did suggest that “value maximization is equivalent to enlightened stakeholder theory” (p. 168). He pointed out that organizations will not succeed in driving profit if they ignore or mistreat employees, customers, suppliers, and other stakeholders in the community. However, Jensen also

noted that a deep divide still existed because the values of organizations differ, which lies at the heart of conflict. He opined that “the danger of stakeholder theory . . . is that those who advocate it simply assume managers would do the right thing so as to benefit society as a whole” (p. 168). Jensen maintained that this assumption was naïve because managers have no way of knowing what would benefit society and the assumption would leave managers unaccountable for their actions. Subsequent articles have suggested that the debate between agency theorists and stakeholder theorists continues despite the attempt of the symposium to create unity. For instance, in an essay assessing Freeman’s Stakeholder theory, Steib (2009) suggested that stakeholder theory is an attack on capitalism and this concept is in no way compatible with libertarianism as Freeman suggested.

In addition to the external debate between stakeholder theory and agency theory, the stakeholder paradigm has been subject to internal bickering as stakeholder theorists have attempted to ground the theory using different interpretations. Attempts to clarify the theory have been criticized by some scholars in the field and lauded by others. The next section outlines how the construct of stakeholder theory was subdivided into multiple approaches in an attempt to better understand how variations of stakeholder theory have been applied to different research questions and have spawned different types of research.

### **Attempting to Address Ambiguity in Stakeholder Theory**

Until 1995, scholars examined the term *stakeholder* from different perspectives, leaving the concept open to the criticism of being “fuzzy” (Donaldson & Preston, 1995). In an effort to corral the literature and bring clarity to the concept, these scholars



discussed the three main perspectives of stakeholder theory: normative, instrumental, and descriptive. Donaldson and Preston's (1995) seminal work has been widely cited by subsequent researchers, with some embracing the categorizations (Hendry, 2001; Jawahra & McLaughlin, 2001), some suggesting that these are actually three different stakeholder theories (Jones et al., 1995; Jawahar & McLaughlin, 2001), some arguing that they are different research agendas (Egels-Zanden & Sandberg, 2010), and some dismissing the divisions as irrelevant (Freeman, 1999).

Donaldson and Preston (1995) argued that describing and explaining the behavior of firms and managers is "unarguably descriptive" (p. 66). Therefore, by presenting a model of what "is," stakeholder theorists were able to empirically test the existence of the concept. The goal was to determine whether observers and participants view the firm as a constellation of cooperative and competing interests. Hendry (2001) suggested that descriptive stakeholder theory "proposes stakeholder answers to questions of fact" (p. 163).

In this respect the question becomes, "How does the firm view its responsibility to stakeholders and what actions should managers take?" Literature in this vein also covers the characteristics of the firm, how board members think about the interests of others connected with the firm (Hosseini & Brenner, 1992), how organizations are managed (Clarkson, 1995), and how individuals behave within those organizations. This stream of research has focused on different perspectives, including the firms' and stakeholders' viewpoints, as well as embraced multiple research methodologies (Butterfield, Reed, & Lemak, 2004).

The second body of literature on stakeholder theory was classified by Donaldson and Preston (1995) as “instrumental.” This approach suggests that stakeholders are a means to an end. In other words, organizations will recognize stakeholders to maximize profits and returns, without specifically doing so for ethical reasons. The arguments proposed in this line of literature suggest that managing stakeholders in a strategic fashion can at times improve a firm’s financial performance (Butterfield et al., 2004; Berman, Wicks, Kotha, & Jones, 1999).

When stakeholder theory is used to describe what “ought to be” based on ethical and moral guidelines, the literature assumes a normative stance (Donaldson & Preston, 1995). One conceptualization of normative stakeholder theory, based on Donaldson and Preston’s (1995) argument, is that stakeholders are individuals or groups who have an interest in the firm and that all stakeholders have intrinsic value. Donaldson and Preston maintain that although the three approaches differ, they are mutually supportive and the normative base provides the critical linkage for the overall theory.

Evans and Freeman (1988) argued that corporations should not only act with the interests of all stakeholders in mind, but that organizations must allow stakeholders to participate in decision-making. Hendry (2001) argues that the concept of normative stakeholder theory is in disarray because theorists have ranged from the modest theory of treating stakeholders with respect to the more demanding theories of offering stakeholders participation in decision-making. Hendry maintains that this wide continuum has left the normative stakeholder theory open to criticism. Empirical research on normative stakeholder theory has also been unable to support the argument that organizations pay attention to stakeholders because of a moral obligation. Rather, Agle,

Mitchell, and Sonnenfelds's (1999) study of CEO's found that the attributes of "power, urgency and legitimacy" affect how managers treat different stakeholders.

Likewise, a study by Berman et al. (1999) tested the instrumental versus normative stakeholder definitions outlined by Donaldson and Preston (1995). Using Fortune 100 companies and data available from the KLD Socretes database from 1991 to 1996, these scholars found that firms that addressed the concerns of employees and customers out of a desire to maximize profit were more likely to improve their financial performance. Meanwhile, the authors found no support that addressing stakeholder concerns for moral reasons impacted financial results. Given the study was based on a database and a mediated regression model versus survey data that captured managerial intentions, it is possible that the categorization of firms' intentions as normative was invalid.

Some studies in the field can be described as both descriptive and normative. Kochan and Rubinstein's (2000) case study of Saturn, for example, was partly normative and partly descriptive. These authors sought to provide evidence that alternative organizational forms exist (descriptive) and that maximizing shareholder wealth should not be the sole purpose of organizations (normative). These scholars conducted over 100 interviews and multiple focus groups, and their data provided evidence that a company can be crafted by labor and management in a manner that is consistent with the definition of stakeholder theory.

Despite all of these arguments, there is overlap between the descriptive, normative, and instrumental approaches. Some stakeholder scholars have questioned the legitimacy of isolating these strands or suggested means for converging the approaches.

Freeman (1999) argued that Donaldson and Preston's segmentation of stakeholder approaches was "dubious" and led stakeholder theorists in the "wrong direction" (p. 233). Other theorists (Jones & Wicks, 1999) suggested that for stakeholder theory to move forward, the normative or ethical-based approach must be converged with the instrumental and descriptive lines of research. By taking this convergent approach, managers can determine "what kinds of stakeholder relationships are both morally sound and practicable" (p. 216). The heated debate amongst stakeholder theorists continues to focus on whether stakeholder approaches to management must be based on an ethical component or whether recognizing stakeholders is just good business.

Having examined the external debate between shareholder and stakeholder theorists, as well as the internal tension amongst stakeholder theorists regarding descriptive, normative, and instrumental stakeholder lenses, different stakeholder typologies will be reviewed. By focusing on what typologies exist to define stakeholder groups, it becomes evident that new research efforts are needed to better understand what practical strategies franchise boards might adopt to create greater collaboration.

### **Examining Stakeholder Typologies**

The broad definition of stakeholders acknowledged by Freeman include primary stakeholders, who have an authorized, contractual relationship with the firm, and secondary stakeholders, who are any group not included in the primary stakeholder list (Freeman, 1984). Recent scholarly work has attempted to provide greater clarity of the term *stakeholder* by taking these broad groups and subdividing them into smaller units to provide more precision and allow for empirical research to be undertaken. Four typologies are examined in this paper. Figure 3 provides a synthesis of four models using

a ladder of rungs to reflect the categorization process. The least influential stakeholder can be found at the bottom of the ladder. Stakeholders move up the ladder as they become more central to the organization.

	<b>Freeman 1984</b>	<b>Mitchell et al. 1997</b>	<b>Frooman 1999</b>	<b>Ford et al. 2009</b>
Increasing levels of importance to firm	Primary	Definitive	High interdependence	Critical friends
		Dominant		
		Dependent		
			Firm power	Aggressive competitors
		Dangerous		
		Demanding	Shareholder power	Quiet competitors
	Secondary	Discretionary	Low interdependence	Indifferents
				Envious
		Dormant		Weak friend

*Figure 3.* Visual representation of four stakeholder typologies. The level of stakeholder importance increases at each elevation in the grid.

A seminal contribution to the literature was offered by Mitchell, Agle, and Wood (1997), which has been widely cited and validated by other scholars. In this theory, stakeholder types are based on whether they have the attributes of power, legitimacy and urgency. The framework suggests that stakeholders can be classified based on specific situations. This type of classification allows managers to predict the behavior of these various stakeholders under different conditions. Managers can create tools ahead of time to deal effectively with various stakeholder situations.

Power is a critical element in the stakeholder relationship, and stakeholders must not only be aware of but also willing to exercise their influence on the firm. In addition to power, stakeholders must have legitimacy, but power does not guarantee legitimacy and legitimacy does not guarantee power. Urgency is the third variable in the equation. The importance of a claim is determined by its time sensitivity. The seven classifications depicted by Mitchell et al.'s (1997) model include definitive, dependent, discretionary, dominant, demanding, dangerous, and dormant stakeholders.

This model assumes that stakeholder groups shift into or out of different classifications based on specific situations in which power, legitimacy, or urgency are gained or lost. Agle et al. (1999) empirically tested Mitchell et al.'s (1997) model by examining decisions made by CEOs of 80 large U.S. firms. Measures of power, legitimacy, and urgency were developed, and factor and reliability analyses demonstrated construct validity for all three measures. Findings from the survey confirmed that stakeholder attributes of power, legitimacy, and urgency individually and collectively were related to whether CEOs perceived stakeholders as salient. This suggests that these

three attributes impact how leaders of organizations prioritize stakeholders (Agle et al., 1999).

Knox and Gruar (2007) operationalized and tested Mitchell et al.'s (1997) theory in their qualitative study of a nonprofit medical charity in the United Kingdom. The researchers created and tested a qualitative survey instrument to record the views of managers regarding key stakeholder constituencies. Mitchell et al.'s model was credited for helping the organization identify and prioritize stakeholders.

Another typology of stakeholders is offered by Frooman (1999) and was based on resource dependency theory. Frooman argued that there must be conflict in a relationship for a stakeholder relationship to even exist. Divergent interests and the potential for conflict are the cornerstones of his typology. Relying on a resource dependency perspective, Frooman (1999) generated four types of firm–stakeholder relationships: firm power, high interdependence, low interdependence, and stakeholder power.

Frooman's (1999) typology outlined influencer strategies that different groups of stakeholders are apt to employ to get what they want. He argued that stakeholders can go about influencing firms in two ways. Groups may engage in a resource-control strategy, whereby the firm's need for a given resource creates the stakeholder relationship. In essence, this is similar to the power attribute that Mitchell et al. (1997) offered in their typology. The difference between Frooman's and Mitchell et al.'s models, however, is that Frooman argued that stakeholders can exercise resource control by working through an ally to control the flow of resources to the firm. Frooman offered a case study as validation of this theory. The case centered on consumers threatening to boycott StarKist Tuna due to the foreign fishing policies of companies that StarKist used. This

withholding strategy influenced StarKist to require their foreign suppliers to adopt different fishing strategies. A subsequent qualitative study by Hendry (2005) used Frooman's typology and found his model "too parsimonious to adequately describe stakeholder influencer strategies" (p. 79). In his four case studies, Hendry found that although Frooman's withholding strategy was operating in the firm–stakeholder relationships, other influencing tactics were occurring at the same time.

Recently, Ford, Peeper, and Gresock (2009) offered a new contribution to stakeholder typologies. Specifically, they wrote a detailed case study of convention and visitors bureaus that suggested a categorization of stakeholders as friends, foes, or neutrals. Similar to Frooman, these theorists relied on resource dependency theory to assess stakeholders by their ability to influence resource allocation. The difference was that these theorists suggested that congruence with the firm's mission is the second attribute to determine how stakeholders can be classified. Their six categories included critical friends, weak friends, quiet competitors, indifferents, aggressive competitors, and the envious (Ford et al., 2009). This typology expands earlier classification schemes by suggesting that stakeholders may not fall into either the friend or foe class, but may be a neutral faction.

Although stakeholder literature has focused on who the stakeholders are and how to classify different stakeholders to help managers assess what is important to the stakeholders, few empirical studies have tested the theories (Polonsky, Schupppisser, & Beldona, 2002). The conceptual framework proposed in the next section is designed to assist franchises and franchisors understand the type of stakeholder relationship operating within the context of the franchise board. Because stakeholder relationships evolve over



time (Hosseini & Brenner, 1992), franchise boards wanting to collaborate effectively will need to understand the type of stakeholder relationship that exists. The research study conducted here will determine if the conceptual framework provides an appropriate classification schemata.

### **Conceptual Framework for Franchise Boards**

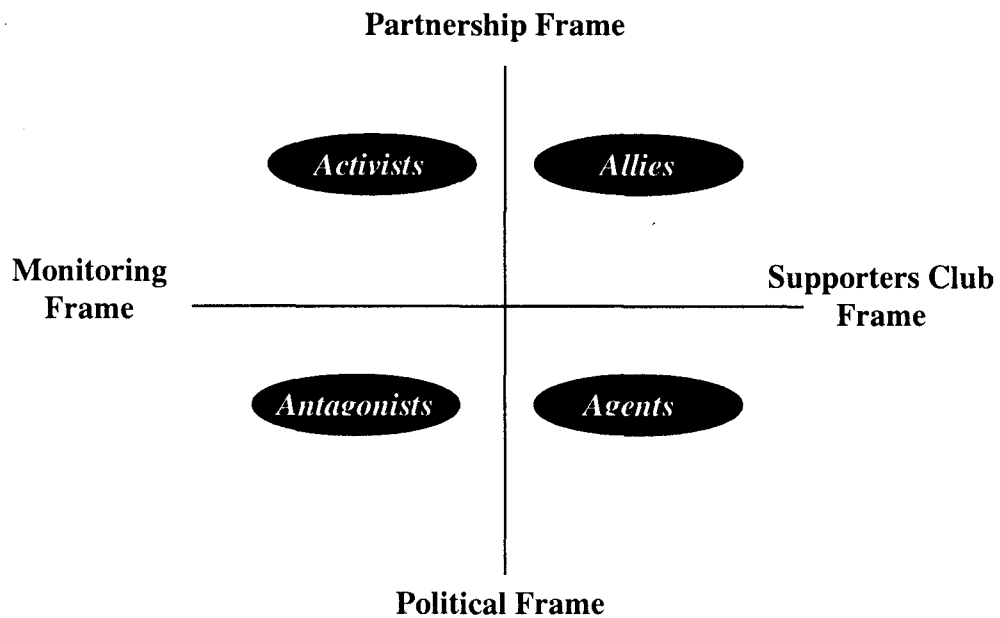
When attempting to evaluate stakeholder relationships, it is important to remember that a number of moderating factors impact the relationship (Polonsky, Schuppisser, & Beldona, 2002). Morgan and Hunt (1994) found that trust and commitment were among the variables that impact relationships. The hypothesis presented in this conceptual framework suggests that the normative governance processes operating on boards can be examined to assess the type of stakeholder relationship that exists between franchisees and franchisors. The four normative governance categories were influenced by Cornforth and Edwards' (1999) study of nonprofit boards. Cornforth and Edwards (1999) suggest the four governance tasks that boards perform include; 1) safeguarding assets or what could be termed a monitoring role; 2) adding value by improving decisions in a partnership role; 3) representing others' interests which differ from the organization that is characterized as a political role; and 4) presenting a united front to external constituencies in a supporters club fashion.

#### **Norms of Governance**

I maintain that the norms of governance used by boards have a relationship that can be reflected as opposite endpoints (see the grid in Figure 4). The monitoring frame represented on the far-left horizontal axis suggests that the main function of the board is to ensure control of the organization. Stemming from agency theory (Fama & Jensen,

1983) this franchise board would be characterized by mistrust between the parties. On the opposite end of the horizontal axis is the supporters club frame, which is characterized by the operating philosophy that boards are legitimizers (Meyer & Rowan, 1977) who help the long-term survival of the franchise.

The vertical axis is represented on the bottom by the political model. In this mode, boards are viewed as representing stakeholders. Under this lens the acknowledgement is made that franchisee stakeholders have different interests than the franchisor, requiring a continual negotiation between the two parties. Board members are viewed as resources to achieve certain objectives (Pfeffer & Salancik, 1978). On the opposite end of the vertical axis is the participation frame. In this mode the franchisor and franchisee board members operate as partners and hold substantive dialogue and debate prior to making decisions. Relational theory (MacNeil, 1981) provides the backdrop for this model.



*Figure 4.* Conceptual framework illustrating the four governance processes defined by Cornforth and Edwards' (1999) and the application of stakeholder relationships by quadrant.

### **Linking Board Governance to Stakeholder Dynamics**

The four-quadrant grid of normative governance frames provides a process for categorizing stakeholder relationships of franchise boards. Figure 4 depicts the four stakeholder groups (antagonists, agents, activists, and allies), which are described below.

#### **Antagonists**

In this schema, boards that operate between the political and monitoring frame are characterized as having an antagonistic stakeholder relationship. Board dynamics are fraught with dissension and distrust between franchisees and the franchisor. Each side uses various power bases to exert influence, and rather than trying to achieve a common goal, each side simply wants to dominate or control decision-making. The most extreme

example of antagonistic board relationships might end in a courtroom with a judge ruling on disputed issues. For example, the KFC franchise association once sued KFC corporate over the right to develop and control the advertising strategy. A 2-year court battle ended with the judge siding with the corporation on their ability to direct the national advertising agency, but also siding with the franchisees that they can make and approve advertising plans (Schreiner, 2011). After this protracted battle in which both sides won or both sides lost, the franchisee–board relationship may either begin to heal or it may remain stagnant in an antagonistic mindset.

### **Agents**

Boards that behave politically but retain a supporters club mindset would be considered as agent stakeholders. This agent relationship can be contextualized by suggesting that franchisees have “gone native,” becoming indoctrinated into the trappings of being part of the board and the advantages that are associated with that position. Boards may be little more than rubber stamps in this context. In an agent–stakeholder relationship, power is most often concentrated with the franchisor. Franchisors operating in an agent stakeholder relationship may be relying on the presence of the board to attract help attract new franchisees by demonstrating the corporation’s commitment to listening to franchisee voices. Franchisors might also rely on the board to help legitimize decisions within the broader franchisee community.

Franchise consultants warn franchisors about establishing councils with appointed members who are friends of the organization. The risk is an overly supportive council that is easy to work with, but one that quickly loses respect among the broader group of franchisees in the system (Ingage Consulting, n.d.).

## **Activists**

In the upper left quadrant are activist stakeholders. These boards want to be intensely involved in decision-making on key issues. There is a more competitive relationship based on the mindset that they must protect their turf. Because of prior experiences, franchisees tend to be suspicious of the franchisors' intentions. The activist board understands that franchisors and franchisees share the same goal, but strategies for achieving that goal may differ between the groups. Franchisors, for example, are frequently more willing to pursue aggressive discounting to bolster sales, because they receive royalties regardless of whether the franchisees are profitable. Franchisees, on the other hand, often resist aggressive pricing strategies because they erode earnings. Franchisee board members may view their role as protecting franchisees from the franchisors' marketing efforts that will drive sales, but reduce profit.

Franchisors acting in an activist stakeholder frame seek franchisee input and participation and view franchisee input as valuable. They rely on the board to help safeguard the brand by ensuring attention is focused on issues of importance to the collective system versus becoming mired in grievances from a small number of franchisees. Franchisors may also believe that franchisee board members will serve as operational role models for the rest of the system.

## **Allies**

Moving above the horizontal axis, boards in the participatory model with a supporters club lens can be characterized as allies. Stakeholder boards functioning as allies have two-way discussions, and both franchisees and franchisors bring insight and advice to meetings. The franchisees' attitudes are one of trust towards the franchisor.

Power in this relationship is shared and the franchisor brings issues to the board early to seek advice and encourages dialogue between franchisees. Recognition that franchisees are a valuable resource characterizes this relationship. In a *Wall Street Journal* article dated February 14, 2011, the new owner of H-1 Auto Care commented on using the advisory council as a way to seek franchisee approval for company proposals. He commented, “It’s much better to have a buy-in than a cram-down” approach. This sentiment is at the heart of a stakeholder relationship that is built upon trust.

Unlike prior stakeholder typologies that identify stakeholders according to their influence over resources (Ford et al., 2009; Frooman, 1999) or by the level of power, legitimacy, and urgency stakeholders hold (Mitchell et al., 1997), the proposed framework classifies board–stakeholder relationships based on the normative governance models that are operating. Each of the four archetypes provides OD practitioners a way to characterize the stakeholder relationship of the board at the onset of any type of board evaluation.

The stakeholder relationship grid may be applicable to assessing a single board meeting since every group will demonstrate behaviors and attitudes that could align with any of the four quadrants. But these are temporary attitudes and perceptions, which tend to change rapidly. Long standing groups will tend to develop a dominant style of working together that lasts over a period of time. This study focuses on those embedded patterns that define the overarching stakeholder relationship. This is not to imply, however, that franchise board stakeholder relationships remain static. When an environmental jolt occurs, such as a new franchisor comes aboard, key leaders depart

from the board or some upheaval occurs that threatens the firm, the franchise board's relationship may shift from one quadrant to another.

### **Summary**

A stream of franchising research has demonstrated that franchisee satisfaction increases when information is shared openly, franchisee ideas solicited, and the entrepreneurial spirit respected. Franchise boards provide one mechanism to promote franchisee satisfaction. The proliferation of advisory boards is expected to continue as more firms embrace the franchise business format.

While the literature has explored the franchisor–franchisee relationship, little attention has been paid to franchise boards. Given the amount of time, money, and energy expended by franchise systems on these boards, this represents a gap that warrants scholarly attention. Are franchise boards fostering collaboration, engendering trust and satisfaction, and enhancing their organizations for long-term success? This question poses both an opportunity and a challenge that franchise systems need to address. The conceptual model to be tested in this research could help identify the type of stakeholder cultures operating within these boards. This type of knowledge could generate practical advice for young franchise systems adopting franchise boards as mechanisms to create and maintain strong relationships between the franchisor and franchisee. More established franchise systems could benefit by analyzing their current board statuses and designing interventions to facilitate greater effectiveness.

## CHAPTER III

### METHODOLOGY

Studies of nonprofit boards, franchising, and stakeholder theory have each covered a wide of range qualitative and quantitative techniques. One of the more widely used survey tools for nonprofit board effectiveness is the Board Self-Assessment Questionnaire (BSAQ; Jackson & Holland, 1998). Case studies have also demonstrated a popular design for studies of nonprofit boards.

Franchising has been studied from both a qualitative and quantitative lens, yet limited empirical work has been conducted on franchise boards. Stakeholder theory has also been examined using multiple empirical tools with a heavy reliance on the Kinder, Lydenberg, Domini, and Company (KLD) index of social performance. In a review of stakeholder studies for a special edition of the *Academy of Management Journal*, Harrison and Freeman (1999) argued that a wide variety of methods are needed in organizational research. These scholars suggest that one methodology is not superior to another. They maintain that examining whether the techniques used were carefully executed, empirically valid, and appropriate for the research questions being addressed are the critical questions reviewers must ask.

A recent study of franchise associations (Lawrence & Kaufmann, 2010) embraced a qualitative research design that relied on an analysis of secondary data of franchise websites, unstructured interviews of franchisees, and observations of three unique franchise-association national conferences. Kaufmann and Lawrence's (2010) work



provides evidence that qualitative tools can shed light on these constructs. Following this line of research, this study will use a qualitative design, but encompass a broader spectrum of franchise boards, including franchisor-sponsored councils and ad hoc groups. In addition, this research will examine both franchisee and franchisor perspectives, as opposed to Kaufmann and Lawrence's focus only on franchisees.

The assumption is made here that robust qualitatively-based research has the ability to help organizations understand how board dynamics work on a deeper level before applying solutions designed to improve the relationship. Stake maintains, "how things work can be more complicated than they seem at first" (p. 37). Scholars in the field of OD are familiar with the habit of organizations to want fast fixes before they truly understand the problem (Short, Keefer, & Stone, 2009). Stake (2010) argued that the main goal of social research is not just understanding how things work, but understanding how things work in their particular settings. Likewise, Miles and Huberman (1994) argued that qualitative data provide rich descriptions that evoke understandings of processes in local contexts that help researchers move past initial thoughts of how things work to generate or revise conceptual frameworks. This study was guided by the belief that franchise boards represented complex entities that reflected specific types of stakeholder relationships. Using a qualitative approach, this study developed an understanding of the purposes and roles of these boards, as well derived evidence about whether the conceptual framework proposed provided a fruitful typology of franchise board stakeholder cultures.

## **Research Design**

This study was conducted in two phases. Phase 1 provided an exploratory step to gain insight into franchisor and franchisee attitudes toward franchise advisory boards. These insights provided background on franchise boards prior to entering Phase 2's comparative case study of three franchise boards. A more detailed description of each phase is described below.

### **Phase 1**

During Phase 1, I relied on a qualitative research design using multiple interviews with franchisee and franchisor boards members from various organizations around the U.S. This took place over an 17-month period. I focused primarily on exploring Research Question 1 (understanding the reasons franchise boards form) and Research Question 2 (examining the roles these boards play as perceived by board members from both the franchisee and franchisor perspectives). Interviews in Phase 1, however, also explored board structures and uncovered aspects of board culture, including tensions that arose between franchisees and franchisors. Phase 1 helped inform Phase 2 by providing a cross-category perspective on reasons why franchise boards form and informed my thinking with respect to how franchisees and franchisors may view their roles on the board differently.

### **Phase 2**

During Phase 2 of the study, I used a comparative case research design to examine three franchise boards, focusing on Research Question 3 (how board structures and processes operate in context) and Research Question 4 (what types of stakeholder relationships are reflected by these boards). The comparative case studies offered

insights into the internal governance patterns of franchise boards and provided verification of the research in Phase 1 by demonstrating what roles boards play in practice.

Creswell (2008) stated that case studies are a type of ethnographic design and have their roots in sociology and anthropology. Yin (2003) offered a broader position, suggesting that case studies are comparable to whole experiments in that they are generalizable to theoretical propositions. Comparing multiple case analyses to detective work, Yin (1981) described how detectives begin with a tentative explanation or theory, and as new cases and new evidence emerge they make modifications to their mental model. Connecting a string of case studies together is made easier if the study is built on a clear conceptual framework or, at a minimum, the central questions of the study are identified beforehand (Yin, 1981).

The conceptual framework in this study proposed that four types of stakeholder relationships operate within franchise boards: allies, agents, activists, and antagonists. Each franchise board represented a case that was analyzed by examining the attitudes and behaviors of board members, along with the governance processes that operated. The dynamics of the stakeholder relationships of three franchise boards represented the unit of analysis for Phase 2 of the study. Current members on each of these boards represented one boundary for the study, and a 6-month board cycle represented another boundary. A case study allowed for observations of board dynamics to be compared to how board members described the process and the relationship.

## **Sampling Procedures**

### **Phase 1**

The population for Phase 1 included board members of franchise associations, franchise advisory councils, and ad hoc groups formed by franchisees. I used a heterogeneous stratified purposeful approach and snowball sampling technique for Phase 1 interviews. Heterogeneous purposeful sampling ensured that the study examined multiple types of franchise boards, including independent associations, franchisor appointed boards, and franchisee ad hoc councils to determine if there was common thinking as to why boards form, similar ideas around the roles these boards play, and an understanding of various board structures and relationships that have emerged.

The study used a stratified sample to have both franchisees and franchisors represented. Both viewpoints were captured to determine similarities and differences between these groups. I also interviewed franchisors and franchisees from multiple industries and multiple types of boards. Participants were current or former members of independent associations, franchisor sponsored advisory councils, or belonged to ad hoc franchise groups. Finally, I employed a snowball sampling technique, whereby each interviewee provided the name of another knowledgeable individual who had experience with franchise boards. Table 1 lists the interview participants, franchise industries, and board types for Phase 1. The names of participants are pseudonyms to maintain confidentiality

Table 1  
*Phase I Interview Participants*

Franchisee board members	Industry	Type of board
Micky B.	Marketing services	Ad hoc council
Tom C.	Tax services	Franchisor board
Melissa H.	Signage	Franchisor board
Corinne G.	Brokerage	Ad hoc council
Greg A.	Personal grooming	Independent association
Tim T.	Restaurant	Independent association
Jason T.	Restaurant	Franchisor board
Franklin C.	Restaurant	Independent association
Dale C.	Health & beauty	Independent association
Kevin S.	Fitness center	Franchisor board
Toby R.	Fitness center	Franchisor board
Franchisor board members		
Milt W.	Restaurant	Independent association
Beth M.	Car care	Franchisor board
Dave H.	Restaurant	Franchisor board
Jim O.	Restaurant	Franchisor board
Donny L.	Car care	Franchisor board
Ron P.	Restaurant	Franchisor board
Sam P.	Restaurant	Franchisor board
David B.	Restaurant	Independent association
Diane P.	Restaurant	Independent association
Jerry M.	Restaurant	Independent association
George D.	Restaurant	Franchisor board

## Phase 2

The sample for Phase 2 of the study consisted of a purposeful sample that included a franchise board and two franchise advisory councils in U.S. franchising systems. I did not have prior work experience at the companies represented by these boards. The three cases represented two different types of boards, industries, and franchise life cycles. Stake (2006) argued that multicase studies must identify the quintan, or umbrella idea, that is being examined. In my study the quintan was the stakeholder relationships that existed within

franchise boards. My analysis focused on each individual case to understand the similarities and differences that helped tell about the quintan. For this reason, heterogeneity with respect to types of boards and industries was desired. This allowed me to understand whether multiple types of stakeholder relationships existed and helped determine the relevancy of the conceptual framework. Gaining access to board meetings and conference calls required a two-pronged approach. The first approach relied on my network of industry contacts to secure entry, and the second approach relied on cultivating relationships with the informants from Phase 1.

**Case participants.** The first case, hereafter referred to by the pseudonym Portini's, was a small restaurant chain located on the West Coast. A professional colleague introduced me to the president of this franchise system, helping to secure entry. I had no prior acquaintance with this organization. This restaurant began franchising in the mid-1980s and currently has approximately 150 restaurants in fewer than 10 states. This is a franchisor-sponsored advisory council with five franchisee members and two franchisor members. I attended the first board meeting in April, 2011, and was present on three subsequent monthly board conference calls. In addition, I attended the board meeting prior to the chain's national convention.

The Portini's board offered the opportunity to learn about a franchisor-sponsored board that has been in existence for over 20 years. Some members of the board had served multiple times over the years, and others were newcomers serving their first term. The founder of the chain was no longer on the board, but remained active in the firm. In addition, the founder's children were involved in the business. The current president of Portini's suggested that this board could be characterized by participation in decision-making. While there were no contractual obligations to allow the board voting rights, the franchisor brought measures forward and sought board endorsement.

The second case, referred to by the pseudonym Zen Masters, was a consumer service health oriented franchise that had been in existence for fewer than 10 years and had approximately 58 franchisees while the research study was underway. The franchisor recently initiated a franchise advisory council, and I gained entry through a colleague who currently works with the owners. I attended the first board meeting in the spring of 2011, and joined six monthly board conference calls. I also attended the September board meeting, which was held prior to the franchisor's convention.

Zen Masters offered the opportunity to understand in greater detail the early life cycle of a franchisor-sponsored board. This allowed me to explore how rules are established and what normative behaviors develop. Particularly important, I was able to observe how the structure evolved and dynamics formed based on that structure. This board provided a balance to Portini's in terms of longevity.

The third case, referred to by the pseudonym Euro Salon, was an independent franchise board. This board has been in existence for over 30 years. This board differed from the other cases in that it reflected an entity loosely connected to an independent franchise association. Euro Salon was an established brand that had undergone ownership changes. The national advertising board that I observed was comprised of franchisees and the franchisor. There was some tension in this board's system due to a possible sale of the brand. Although I had access to six monthly conference calls, I was not able to attend the one board meeting that occurred during the study.

### **Data Collection**

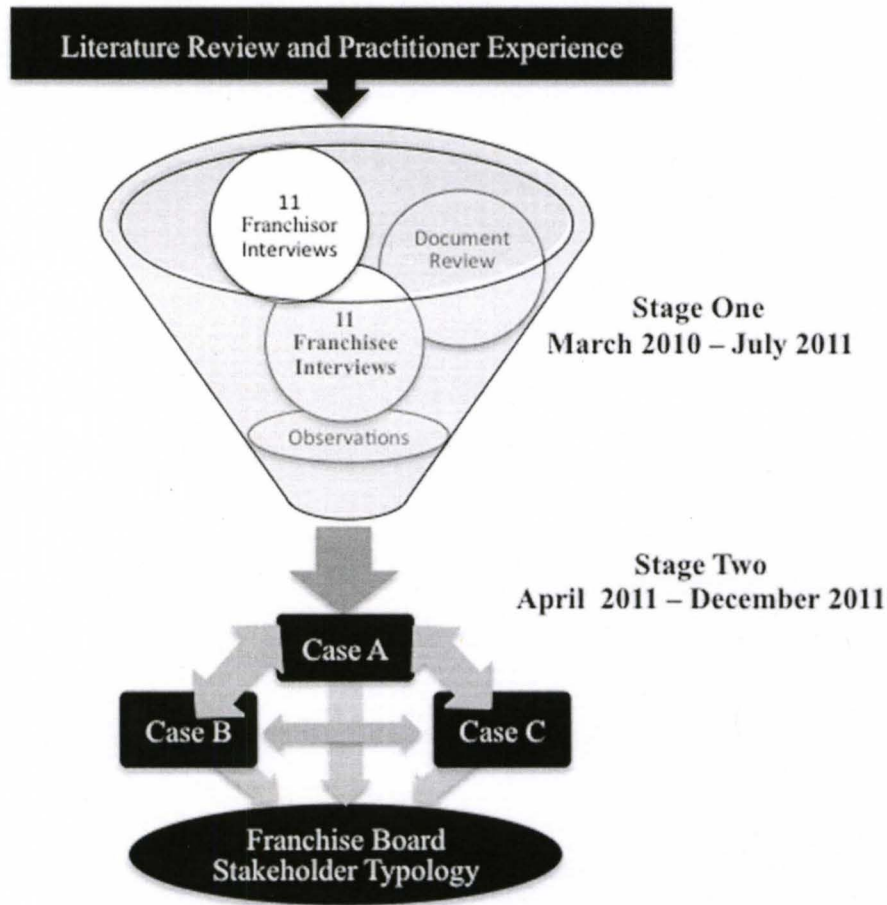
I secured IRB approval for Phase 1 in February, 2010 (Appendix A). The method of data collection for Phase 1 was semi-structured interviews. IRB approval for Phase 2 was secured in March, 2011 (Appendix A) to allow for participant observation. During

Phase 2, I recorded field notes during meetings and conference calls and conducted semi-structured interviews using the same interview guide as in Phase 1. I also engaged in unstructured interviews with board members. Finally, I reviewed board documents, including agendas, meeting minutes and bylaws. Using multiple sources provided the necessary triangulation of data to help match what was heard with what was observed. The outsider, or “etic” perspective was brought forward by the researcher and used during observations, whereas the “emic” perspective was gained through participant interviews. Capturing both perspectives enhanced the reliability of the findings.

### **Timeline**

Phase 1 of the research began in March, 2010 and was completed in July, 2011. Phase 2 data collection began in April 2011 and was extended over an 8-month period. Figure 5 provides details of the timeline.





*Figure 5.* Timeline representing flow from phase 1 to phase 2 of the study, as well as the constant comparative approach used during the process.

### Interviews and Conversations

During Phase 1, I conducted 22 interviews over a 17-month span. The interview protocol ensured inclusion of key questions based on the research questions guiding the study. Questions covered why boards form in the first place, what roles these boards play, and how boards operate internally with each other, as well as externally with other members of the franchise system. The researcher also asked probing questions to seek

expansion on specific themes or clarification of comments made by the participant.

Appendix B includes the list of interview questions.

Identifying individuals with codes ensured the participants' anonymity. Codes identified each participant as either a franchisee (z) or franchisor (r) and then assigned a mutually exclusive number from 1 to 20 for tracking purposes. In-person or telephone interviews ranged between 45 and 90 minutes. With the permission of the participants, all interviews were taped and transcribed. I also took notes as a back-up mechanism. I relied on manually recorded notes for two interviews due to poor tape quality.

During Phase 2, I relied on both formal and informal interviews to gather data. I conducted 25 semi-structured interviews with board members and board attendees, either in person, or by telephone. All interviews were recorded and transcribed, but handwritten notes were taken to provide backup in case the recorder distorted words. While attending meetings, I engaged in numerous informal conversations and unstructured interviews with board members and regular board attendees. After these informal conversations, I captured the content from those conversations on paper, within 24 hours, to ensure accuracy.

## **Observations**

In addition to observing four face-to-face franchise board meetings, I attended three board dinners and joined 14 board conference calls. Typically, franchise board meetings lasted a full day and conference calls spanned an hour to 90 minutes. Field notes captured the type of questions posed, detailed franchisor–franchisee interactions, formal and informal rules, and normative behaviors with respect to decision-making. I created an observation checklist based on interviews from Phase 1, and from the literature

I had reviewed. Appendix C shows the observation checklist used during face-to-face meetings.

### **Document Analysis**

Documents were analyzed from board meetings to supplement observations and interviews, providing another level of triangulation. I compared written agendas provided at the meetings to what transpired during the sessions to determine if boards stayed on topic or deviated from the formal agenda. Likewise, I reviewed minutes of board meetings to assess how information was officially communicated. Document analysis provided me the opportunity to check content of field notes to ensure all decisions were captured.

### **Data Management**

Miles and Huberman (1994) describe qualitative data analysis as a “continuous iterative enterprise” (p. 12). Because qualitative data analysis is a more fluid process, Miles and Huberman recommend explicitly defining the data-analysis process before data collection begins and documenting each step of the process in detail. For Phase 1, data management included a matrix of interviewees containing the following type of information: first name, last initial, date interviewed, identification as a franchisee or franchisor, franchise industry, type of franchise board, age range of franchise board, and code number attached to the interviewee. This matrix was included in a binder with all 24 transcripts and 24 contact summary sheets that were compiled and attached to each transcript.

For Phase 2, I used a binder system to organize each case and house hard copies of transcripts, field notes, and other documents related to the case study. A matrix for

each case included the following type of information: case letter, type of franchise system, age of franchise system, board size, age of board, board meeting dates, first name and last initial of each board member, date board members were interviewed, and a unique code for each interviewee.

### **Data Analysis**

During Phase 1, I used contact summary sheets to synthesize the data. Miles and Huberman (1994) defined *contact summary sheets* as a simple 1-page form written after field notes have been transcribed to capture the main ideas, concepts, and impressions from the interview. These forms make it easy to conduct rapid retrieval and can be useful to read prior to an upcoming interview. Appendix D shows the contact-summary-form template used during Phase 1. Miles and Huberman recommend preparing contact summary sheets within a few days after receiving typed transcriptions. Contact summary sheets were prepared for all eight transcripts by the end of December, 2011, and the remaining interviews had contact summary sheets prepared within a week of receiving the transcripts.

My journaling began in January 2011. Journal entries occurred weekly and included my concerns, ideas, and reflections on the research process. I reviewed prior journal entries before interviews or meetings to determine if new themes have surfaced that warrant new probes.

I used an iterative process of reviewing the contact summary sheets and journal entries to create the coding schemata. The first-order coding cycle used a combination of coding processes. Attribute coding enabled identification between franchisors and franchisees, as well as to track each participant. The initial coding technique also relied

on descriptive codes based on participant content related to each research question (Saldana, 2009). At times the codes reflect an in vivo approach where the participants' words were used to capture certain themes. This coding process allowed for both "etic" and "emic" perspectives to emerge.

Manual coding by the researcher involved cutting field notes into thought units and placing these on index cards where they were read and coded. White index cards contained units of thought from franchisors, and color-coded cards contained franchisee commentary. Each card contained the attribute code on the bottom to distinguish each participant. An example would be GA-5z, signifying that this was Greg A, the fifth franchisee interviewed. Next, each thought unit was content coded based on the coding schemata mentioned above. Twenty of the index cards were given to a fellow student along with the coding sheet. The student then coded each card to provide a level of interrater reliability. An interrater reliability score of 90% was achieved.

Stake (2006) argued that the quintain is better understood when multiple cases are studied. During Phase 2, I examined each of the three franchise boards to understand similarities and differences that provided evidence with respect to the types of stakeholder relationships that were operating. I utilized worksheets to capture the themes about the quintain. I also relied on matrices to generate and track assertions (Stake 2006). The case sources are outlined in Appendix E.

### **Researcher as Instrument**

In both quantitative and qualitative studies, the role of the researcher is to determine the purpose of the study, formulate the research questions, and design the study to answer the questions. In qualitative studies, however, the researcher is also an

instrument (Patton, 2002). The knowledge, skills, and rigor that the researcher applies impacts the credibility of the research endeavor. It is important for the qualitative researcher to understand how their own background and predispositions may influence what they observe and how they understand what they observe (Patton, 2002). Morrow and Smith (2000) argue that the researcher's knowledge mediates the information gleaned from the observations.

In this study, I brought 15 years of practitioner experience from the franchising industry. Over my corporate career I attended and participated in roughly 50 franchise board meetings across three different restaurant franchise systems. This type of background gave me the opportunity to enter this study with a series of sensitizing concepts to orient the fieldwork and helped me craft the conceptual framework. Sensitizing concepts are useful for providing a starting point and allow the researcher to “[break] the complexities of planned human interventions into distinguishable, manageable, and observable elements” (Patton, 2002, p. 279). Denzin (1978) offered the following perspective on how sensitizing concepts can guide fieldwork:

The observer moves from sensitizing concepts to the immediate world of social experience and permits that world to have and modify his conceptual framework. In this way he moves continually between the realm of more general social theory and the worlds of native people. (p. 9)

My prior experience with franchise boards illustrated that in qualitative research the observer may not represent a blank slate. This suggested the need for reflexivity on my part. Reflexivity allows the researcher to remain cognizant of the participants' perspectives and voices in the process. During my study, I continually asked myself, what I knew, and how I knew it, to manage potential bias. The personal journal I initiated during Phase 1 and maintained throughout the study served as a means of

reflection. I also included a level of skepticism and sought alternative explanations about what I heard and observed.

### **Trustworthiness**

Researchers using a naturalist inquiry approach need to demonstrate that they are representing the participant's mental constructions fairly. Lincoln and Guba (1985) recommend that qualitative researchers use five techniques to ensure credible findings and interpretations. This study incorporates all five as outlined below.

1. **Prolonged engagement**, persistent observation and triangulation. In this study I observed multiple board sessions and supplemented observations with interviews and document analysis. I was in the field for 21 months providing a long period of engagement.
2. **Peer debriefing** with an impartial colleague to propose and attempt to explain working hypotheses. As a doctoral student I relied on my advisor and committee members as sound checks for my theories. Periodic discussions about observations allowed me to learn how these scholars might interpret specific board behaviors.
3. **Seek negative case analysis**, whereby continual refinement of the hypothesis occurs as new learning takes place and refutes prior conceptualizations. I continued to refine the conceptual framework as new observations added context to the study.
4. **Benchmarking** what is found by holding parts of the research in the archives for later comparison. I set aside three interviews that I did not code until my paper was completed. I then listened to those interviews to determine if the

themes identified in my study fit the comments shared by these franchisees and franchisors.

5. **Member checks**, whereby the researcher “plays back” to respondents what is learned. In this instance I will sought participants’ verification of what I learned by asking for clarification and rephrasing of what I heard.
6. In addition to using multiple sources of information, peer debriefing can offer a valuable method of triangulation. I borrowed additional expertise. I discussed my findings with various practitioners in the franchising field who I have worked with in the past.

### **Strengths and Limitations**

A strength of Phase 1 of this study was the inclusion of multiple franchise industries, including restaurants, food service, grooming, automotive care, printing, public relations, and financial-planning services. Another advantage was that I was able to include a broad spectrum of board types. The boards ranged from ad hoc franchisee councils to franchisor-sponsored boards to independent franchise associations, which provided a holistic overview of many franchise organizations. Franchisors and franchisees were evenly represented, which helped to reduce bias. The scope of the research in Phase 1, however, was limited to 22 interviews and was dependent upon the willingness of the participants to provide candid information regarding their perceptions of franchise boards. A possible limitation was that 55% of the interviews during Phase 1 were with people who worked in the food industry, but this high percentage is reflective of the dominance of this industry in franchising.



Yin (2003) argued that multiple case comparisons are valuable for generalized theory building, provide more compelling evidence than a single case, and elevate the stature of the study (Yin, 2003). Phase 2's use of multiple cases was an asset because it provided three single cases to address the research questions and generated an additional 25 interviews, bringing the total number of interviews to 47. In addition, Phase 2 allowed me to collect evidence on behaviors and attitudes in different franchise boards.

The most obvious limitation in Phase 2 was the small number of cases examined due to time and financial resources. On the other hand, the small sample also offers an opportunity for future empirical work to continue to refine the conceptual framework as more franchise boards are analyzed. Another limitation of this study was reactivity, whereby my presence at board meetings and on conference calls may have altered the board members' behaviors to some degree. Additionally, my 15 years of franchise industry experience may have had some impact on my perspective. Finally, I did remain cognizant of all of the limitations and have attempted to ensure that my readers can fairly evaluate my assertions, analysis, interpretations, and conclusions.

## CHAPTER IV

### PHASE 1 FINDINGS

#### **Introduction**

The data for this study have been collected in two phases. Phase 1 consisted of 22 interviews with franchisors and franchisees from multiple industries. These interviews took place over the course of 17 months. Phase 1 findings are reported in this chapter. Phase 2 of this study occurred over an eight-month period, during which I conducted three case studies of franchise boards in three organizations. Findings from my observations, interviews and document analysis of these three cases are reported in Chapter 5. The final chapter of this dissertation, Chapter 6, includes my discussion, implications, strengths and weaknesses of the work and future research opportunities.

This chapter begins with a review of three different types of franchise boards. I then shift to address the research questions of why do boards form, and what roles do boards play in franchising systems? This discussion is followed by a review of board structures, which addresses my third research question. Next, I use four governance models as my frame of reference to answer my Phase I research question: what types of stakeholder relationships operate on franchise boards? Finally, I conclude with a chapter summary that examines my conceptual framework in light of the findings from the 22 interviews conducted during Phase 1 of my study.

## **An Array of Franchise Boards**

Practitioner-oriented franchising literature advocates establishing franchise boards early in the lifecycle of the organization. In the book, *The Insider's Guide to Franchising* (Webster, 1986), the author recommended that franchisees who become involved with companies lacking boards should “consider working with them to form one” (p. 197). Likewise, the International Franchising Association (IFA) suggests that when considering the purchase of a franchise, entrepreneurs, as a part of their due diligence, should inquire as to whether the franchisor supports the creation of franchise owners associations -- or franchise advisory councils. If so, do the franchisors actively participate in board meetings and activities?

The difference between independent association boards and franchise advisory councils becomes meaningful in the context of board formation. An independent association is formed by franchisees, designed to benefit franchisees, funded by franchisees, and operated by franchisees. Franchise advisory councils, on the other hand, are formed by the franchisor and can be disbanded by the franchisor (Barkoff, 2007). This statement was confirmed by several of the participants in this study. Milt W., one of the franchisors interviewed for this paper, distinguished between the two types of boards with his observation that:

Franchise advisory groups give advice to the franchisor primarily at the franchisor's request. A real important thing is that the franchisor is essentially in control of that type of organization and can listen to them or not, as they see fit. They can disband them or change the makeup, or the frequency of meetings. The other type is the independent association. This is formed by the franchise constituency who elects representatives, they can meet when they want to, and the franchisor can either recognize them or not. (MW, 6/12)

With respect to the types of boards operating within this group of respondents, eight interviewees discussed their independent associations, 12 reflected on their

franchise advisory councils and two interviewees spoke about their ad hoc groups. In five instances, both an independent association and a franchise advisory council co-exist. In these situations, interviewees answered questions relating to the board on which they participated.

The practitioner literature (Barkoff, 2007; Borian & Borian, 1987; Luxenberg, 1986; Wulff, 2005) has described independent franchise associations as legal entities that are funded by the dues of the membership, as opposed to being financed by the franchisor. However, among the eight independent associations represented in this study, two have budgetary allowances from the franchisor. In these cases, the franchisor reimburses franchisees' travel expenses to and from the board meetings. One franchisor, David B., commented, "when the independent association board formed we matched their dues to help them launch. We didn't want the relationship to be adversarial. Today, we continue to pay for franchisees' travel" (DB, 3/14).

The second type of entity is the franchise advisory council. Advisory councils vary in form across different systems. Donny L., a franchisor of a mid-sized restaurant chain, said his organization created their advisory council once it had 20 franchisees in the system. Donny offered the opinion that franchisors should refer to these sponsored entities as "councils," as opposed to using the term "board." He opined that the franchisor must keep decision-making power, and that the term "board" indirectly implies a decision-making body that oversees company operations (DL, 12/31).

Variation in the franchisor's approach to establishing and managing advisory councils was evident when a franchisee, Melissa H., indicated that her franchisor's advisory council was not widely known. She commented, "I am not sure there is a lot of

perception about the council. I mean it is prestigious to be invited, but there is no ceremony to say ‘here is your franchisee advisor’ in front of other franchisees.” Melissa went on to say that there were probably many franchisees either not aware of the council, or not familiar with what it does (MH, 8/13). Meanwhile, Beth M., an automotive franchisor, indicated high visibility for her organization’s franchise advisory council. Beth indicated that the corporation holds annual elections for members, issuing a public relations piece on each candidate to every franchisee in the system (BM, 9/2).

Other interviewees mentioned a third type of entity, the ad hoc council. These ad hoc councils are formed by franchisees, but unlike franchise independent associations, these councils do not register as legal entities. With respect to ad hoc councils, the franchisor may or may not be invited to participate. In this study, two franchisee interviewees said they had created their own councils. Connie G., a franchisee who formed one of the ad hoc councils, stated:

When I started this council, I didn’t have information on how to do it. That would have been helpful. But, if we had waited to have 70 franchisees, we would have missed the ship along the way. Franchisors need to understand that this is one of the tools to implement early to help franchisees. (CG, 9/22)

### **Motives for Board Formation**

Interviewees suggested three primary reasons why boards are created. These include the desire to achieve the following: (a) address some form of stress on the system; (b) exchange information and pool resources; and (c) preempt franchisees from organizing an association. These findings support papers issued by franchising attorneys, franchise trade associations, and franchising consultants. Boroian and Boroian (1987) have recommended that franchisors form franchise associations or councils early to avoid franchisees “threatening a revolt” later down the line (p. 207). Franchising attorney,

Rupert Barkoff (2007), in the trade journal article “Franchisee Associations: Nothing to Fear But Fear Itself.” suggested that change of management, bankruptcy, or a perceived breach in the franchisor’s performance drives franchisees to organize and form associations. In an interview with Barkoff for this paper, he indicated that, while this point remains true, he has seen “a slow trend” for franchisors to form independent association groups. Barkoff commented that franchisors are beginning to recognize that the communication chain in these associations can be good for them, as well as for the franchisees (personal communication, July 2011).

### **Addressing Stress**

Twenty interviewees suggested franchise boards may form “out of stress” on the system. Stress could occur when a franchisor is near, or declares, bankruptcy, there is an ownership change, new corporate executives are appointed, or some form of litigation against the franchisor is filed. Each franchisee interviewed mentioned stress as a possible reason for board formation. Meanwhile, nine franchisors mentioned stress as the driving force for the initiation of these boards. Interestingly, three of the participants interviewed discussed how their boards transformed from independent associations to franchise advisory councils, or vice versa. Stress, or the removal of stress, was the harbinger of these changes.

In the first two instances, bankruptcy proceedings incited the franchisees to form independent associations and to dismantle their franchise advisory councils. In the case of the mid-sized restaurant chain, Milt W. noted that a franchise advisory council had previously been in existence. The franchisee board members participated on a “volunteer basis.” When the franchisor was in financial trouble, however, the franchisees “felt they

needed to speak with one voice and did not believe the franchise council was going to represent their interests.” Milt said the franchisees formed the franchise association because “they [franchisees] had to look out for themselves, because they owned roughly 40% of the units.” He reported that the relationship at this time was extremely adversarial (MW, 6/11).

A restaurant chain also made a similar transition from an advisory council to an independent association. The shift occurred when the brand stopped growing and was in the process of refinancing debt. David B., the franchisor, reported that the “franchisees felt the company was not open and progressive so they decided to organize their own board.” In this case, the franchisee council members solicited all franchisees to join the new association and become dues-paying members. The funds collected were used to obtain legal representation and to create the bylaws. David indicated that the same people who served on the franchise advisory council also served on the new association board. He noted, however, that the franchisor worked “arm in arm” with the new association. David indicated that it was not adversarial because the franchisor wanted to work with the new association to “keep the peace” (DB, 3/14).

In contrast, an automotive franchise system switched from an independent association to a franchise advisory council. Beth M. shared that, when she became president, one of the first things she had to deal with was a newly formed association with “upset and angry franchisees.” In discussing her reaction to the situation, Beth said, “The thing that was key, was that I understood their feelings because I too had been a franchisee.” She reported that, after 18 months the association that had formed decided to disband, and the franchisor, in conjunction with the franchisees, established a new

franchise advisory alliance (BM, 9/22). This franchisor-sponsored alliance is still operating today. It is one of only two boards, amongst those in this study, which annually surveys the broader franchise community to calibrate the effectiveness of their franchise advisory alliance.

Other interviewees also suggested that stress was the precursor to association formation. They pointed to lawsuits, or systemic problems, as the flame that often ignited the match. Tim T., a franchisee, observed, “Our lawsuit garnered a way for us to have a unique relationship with the corporation” (TT, 2/8). Another franchisee phrased it succinctly, “typically boards form because something precipitates the need, such as new owners or sales declines” (MW, 6/11). Along the same vein, Dale C., the franchisee in the grooming industry, referred to their franchise association as a “pit bull on a chain, whose job is to keep mischief away from the doorstep” (DC, 5/6).

### **Pursuing Communication**

The findings also clearly show that boards form to exchange information, pool resources, and grow the business. Half of the respondents (11) offered this rationale as the guiding force behind board formation. Roughly an equal number of franchisees and franchisors discussed the role of boards as mechanisms to share ideas and grow the business. Franchisee, Greg A. said, “we pool our monies to purchase television commercials, radio commercials, posters, and other sales materials” (GA, 1/31). Likewise, Tom C. said, “Our responsibility is to manage and run the funds for marketing” (TC, 8/11). In this situation, Tom’s board oversees the marketing funds collected from the franchisees by the franchisor. Two franchisees discussed the board as a way for the franchisor to get ideas from smart people “for free.” Other respondents mirrored this



view by suggesting boards help figure out problems and come up with new ways of doing things. In contrast, an alternative perspective about the pooling of resources focused on leveraging strength in numbers. Several interviewees suggested franchisees come together to gain a “seat at the table.”

### **Striving for Control**

To a more limited degree, the data suggests that franchise boards and councils are formed as a defensive strike by franchisors wanting to avoid having an independent association created. While often heralded by consultants as the reason for board formation (Ingage Consulting, pg. 1), less than one-fourth of the individuals interviewed for this study suggested this as a motive. One franchisor distinguishing why franchisors need to act early, said, “If a franchise organization grows and never forms a council, at some point, the franchisees will create an association. This is not the same thing, this is a union” (DH, 10/1).

### **Articulating Roles & Responsibilities**

Franchising consultants and attorneys suggest that boards provide “feet on the street” feedback from operators who are in the field. Boards also allow both parties to bring new ideas, programs, and suggestions forward. Furthermore, they evaluate upcoming or past programs, improve communication with the franchisor, and represent the broader group of franchisees’ interests. In some instances, they even protect the franchisees by creating a legal entity that can challenge the franchisor in court (Barkoff & Green-Kelly, 2006; Darrin, Stadfeld, & Wulff, 1998; Gurnick & Wharton, 2000; Ingage Consulting, n.d.; Spandorf & Barkoff, 2003).

I asked all participants to describe the roles of their franchise boards. Through an iterative process, these roles were classified to reduce redundancy. For example, one participant described the role as being a sounding board, while another participant suggested the role was to offer the franchisor input on ideas. While these board functions were initially classified separately, upon review it was apparent they expressed a similar idea. From this investigation three themes emerged, encompassing seven roles. Table 2 includes the themes, roles, and frequencies (the number of participants who indicated this role, as well as the number of times the role was mentioned). Following the summary table, each theme will be discussed.

Table 2  
*Board Member Roles Classified by Franchisors and Franchisees*

Themes	Categories	Franchisors		Franchisees	
		# Mentioning	% Mentioning	# Mentioning	% Mentioning
Spreading the News	Sounding Boards	11	100%	10	91%
Promoting Power Plays	Representation	11	100%	6	55%
	Legitimizing Decisions	6	55%	5	45%
	Monitoring	2	18%	8	73%
	Decision-making	2	18%	9	82%
Building Bridges and Bonds	Mentoring Opportunities	2	18%	4	36%
	Create Camaraderie	2	18%	3	27%

### **Spreading the News**

The board functioning as a communication forum emerged as the most widely cited role. David B., whose organization has had both a franchise advisory council and an independent association, said, “The most important role of the board is to provide

feedback.” He went on to suggest that the board may offer granular input on a new product idea, or broad perspective by engaging in dialogue on where the company is headed (DB, 3/14). Another franchisor, Sam P., confirmed the sounding board role by suggesting that boards provide “expertise and perspective from frontline owners in shaping brand marketing and other decisions” (SP, 2/8). Ron P., a franchisor with a large restaurant chain, lauded the value of communication when he said, “we have a general belief that, as a franchisor, you need to make sure you are listening to franchisees.” Ron went on to say that it never works when franchisees and the franchisor are not aligned on key initiatives (4/25). Along the same theme that communication is a necessary element for collaboration, Dave H., a franchisor, offered the opinion that good communication improves the relationship between the franchisor and franchisee. Dave also added that having an advisory council improves the relationship among franchisees. He suggested there was value in having franchisees sharing their knowledge and experience with other franchisees in the system (DH, 10/1). Beyond the tangible benefits of improving ideas or direction, franchisor, Donny L., observed the intangible communication benefit that boards allow everyone to be heard (DL, 12/31).

Not all franchisees were convinced that their franchisor supported this concept of communication. One franchisee said, “I think our system [referring to the franchisor] is just starting to learn that there is value in franchisees communicating and sharing best practices and sharing worse practices” (CG, 9/22). Connie G., one of the other newer franchisees, in a young franchise system, formed her own ad hoc council for the very purpose of communication. She said she invites all franchisees to the monthly conference calls because it is an efficient way to gather and share information (CG, 9/22).

While communication was most widely-cited as a means to share ideas and information, Dale C., the franchisee from the grooming industry, offered another perspective. He reported that his franchisor wants to use the independent association board to share ideas, but he, and others, have resisted because they view the board's role as strictly a mechanism to express their grievances to the franchisor (DC, 5/6).

### **Promoting Power Plays**

Interviewees described a number of board roles that can be captured under the umbrella of politics. As described in subsequent paragraphs, four specific board functions that ensconce political elements include: (a) providing representation of rank and file franchisees; (b) serving as a monitoring mechanism; (c) influencing decisions; and (d) legitimizing people, processes and decisions. While both sides mentioned political functions, the research uncovered differences between franchisee and franchisor perspectives. This was one of the more interesting findings: franchisee board members expressed a broader number of political roles, and they more heavily emphasized decision-making and monitoring functions. Meanwhile, franchisors focused on the board's function of conferring legitimacy of their initiatives and providing representation of the broader franchise community. Figure 6 displays how franchisees and franchisors emphasize the political aspects of boards.

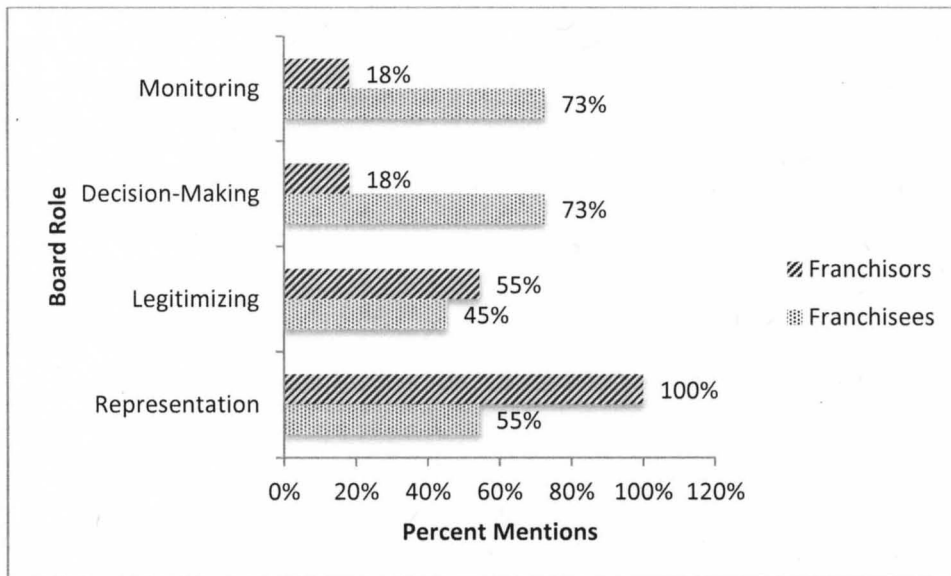


Figure 6. Franchisor versus Franchisee perceptions of political roles boards play.

**Representation role.** A franchisor, Jim O., expressed the role of representation when he said, “as systems grow, the boards role is to bring the perspective of the franchisee community to the table.” He went on to say, “given the proxy by constituents, they [boards] become important to the franchisor.” Jim noted that the backing by the board for a franchisor initiative helps pave the way for acceptance amongst the rank and file constituents (JO, 10/4). Beth M., the automotive franchisor, echoed this sentiment by indicating her system sends out surveys to franchisees. The surveys help ensure franchisees know how to reach their franchisee board representative (BM, 9/2). Meanwhile, only half of the franchisees listed representation as a role of the board. It is possible that franchisees consider the role of representation to be implicit, given that their peers elect them.

**Monitoring role.** Franchisees were more likely to suggest the primary role of boards is to ensure franchisors are monitored. Words used to describe this monitoring responsibility included the actual word “monitor,” as well as, “checks and balances,”

“protection,” and the colorful phrase “hold the franchisors’ feet to the fire.” Eight out of the 11 franchisees interviewed offered this idea. Examples of monitoring included the need to watch for, among other things, changes to the language in franchise contracts, corporate expansion plans, marketing and operational initiatives, as well as unit redesigns. Greg A. commented that their board is like “insurance.” He elaborated on the boards compliance responsibility using Al Capone’s famous quote, “You can go a long way with a smile. You can go a lot further with a smile and a gun” (GA, 1/31).

**Decision-making role.** Another political role that varied significantly between franchisor and franchisees was decision-making. Nine of the eleven franchisees mentioned that the board functions to allow franchisees to be involved in making decisions. Franchisees mentioned their input on the allocation of marketing funds, new products, and operational processes influenced decisions made for the system.

However, only two of the 11 franchisors interviewed discussed the decision-making aspect of the board. In both instances these franchisors quickly added that their boards functioned in an “advisory only” capacity. One of the two franchisors, Ron P., commented, “we use to get votes on a lot of issues, but now we are shying away from these.” Ron went on to say that, as the level of trust has built up over the past few years, the need to vote on every issue has decreased (RP, 4/25). It is worth noting that Ron’s is a franchise advisory council, but a separate independent association also exists in his organization. George D., the only other franchisor to mention the decision-making role of the board, suggested, “the board gives input to help understand the pros and cons of why something would or would not work” (GD, 6/12). Unlike Ron, however, George’s board does not include a voting process.

**Legitimizing role.** Finally, interviews highlighted the idea that boards legitimize people, processes, and decisions. Half of the respondents, almost equally split between franchisees and franchisors, mentioned this as a board function. A franchisor, Sam P. said, “The number one role [of boards] is to give credibility to leadership decisions” (SP, 2/8). A complementary statement was offered by David B., who stated, “When we, [the franchisor], say we discussed something at the last board meeting this provides validation to the franchisees” (DB, 3/14). Another franchisor indicated that the buy-in occurs because, “franchisees feel better if their peers are involved” (GD, 6/12).

Among the franchisees who indicted boards offer legitimacy to decisions, there was open acknowledgement that this was a tactic used by their franchisors. Kevin S., a fitness franchisee, bluntly stated his franchisor’s board [now disbanded] served as “smoke and mirrors” to assuage franchisees that everything was working (KS, 6/24). Another franchisee stated that at times their board functioned as “shills.” This same franchisee maintained that being on the board was viewed as a “status thing” because it means you are a good operator (JT, 3/1).

### **Building Bridges and Bonds**

The idea that boards foster collaboration, allow for mentoring, and promote a sense of belonging was reaffirmed in the Phase I data. Both franchisees and franchisors mentioned this role, though to a much lesser degree than fostering communication or providing political capital. A franchisee, Connie G., said, “Boards provide you a back-pat and hoorah, it’s a sharing of success with others.” She went on to say, “We are all sitting here by ourselves. It’s good to have that camaraderie, it allows everyone to bond” (CG, 9/22). Dave H., a franchisor, commented that some franchisors fail to grasp how

important franchisee interactions are and how they benefit the system (DH, 10/1).

Another franchisor, Beth M., offered that their council has a mentoring program for other franchisees to be coached by their peers (BM, 9/2).

### **Some Common Governance Patterns**

The primary mechanisms used to fill board member terms are elections. Out of the 22 boards providing data in Phase I, sixteen hold annual elections. Depending on the size of the franchise system, the board may be divided into regions, with franchisees in a certain region electing their representative. Amongst this group of interviewees, where elections were held, each franchisee had one vote. Boards appointed by the franchisor occurred twice. One board self-selected members, and the remaining two boards invited all franchisees to participate.

Depending on whether it was a franchise advisory council, or an independent association, the level of franchisor involvement in the electoral process varied.

Associations handled their own electoral process while franchisors were more involved in publicizing candidates and elections in franchise sponsored boards. Table 3 shows the breakdown by board type, illustrating little difference between independent associations and franchisor sponsored councils in terms of how seats on the board are secured.

Table 3  
*Member Selection Process*

<b>Members</b>	<b>Ind Assoc</b>	<b>FAC</b>	<b>Ad Hoc</b>	<b>Total</b>
	(n = 8)	(n = 12)	(n = 2)	
<b>Elected</b>	7	9		16
<b>Appointed</b>		2		2
<b>Self-Selected</b>	1			1
<b>Everyone</b>		1	2	3



In one of the franchise appointed councils, the franchisee reported that the franchisor controlled not only who was on the board, but also who was appointed the chair. In this situation, the franchisee, Kevin S., said “the franchisor asked me to chair the council and I asked why.” He told me that “People listen to you.” Kevin S. explained that the franchisor wanted the former chairperson removed from office about the same time a rogue franchisee tried to start an independent association. While the independent association never took root, the franchisee members of the board did hold a secret meeting with franchisees. Kevin S. described the climate at the meeting as “venomous,” with franchisees holding the franchisor in low regard. The franchisees on the board met with the franchisor to let them know how angry they had become, but this news only served to further strain the board relationship. Kevin said the board disbanded not long after this meeting. He indicated that the franchisee board members realized that they were “impotent” to make change; therefore they saw no need in continuing to serve on the board (KS, 6/24).

### **How and When Boards Convene**

Fourteen of the 22 boards hold quarterly meetings, five meet one to three times a year and three boards hold monthly conference calls. The independent association boards and franchise advisory councils represented in these interviews, tend to embrace face-to-face meetings. The ad hoc councils reported relying on conference calls. Out of the eight independent associations, only one group does not include the franchisor for any portion of the session. The other seven independent association boards invite the franchisor to attend at least a portion of the meetings. See Table 4 for the breakdown of meeting processes by type of board.

Table 4  
*Number of Face-to-Face Meetings by Board Type*

Meetings	Ind Assoc	FAC	Ad Hoc	Total
	(n = 8)	(n = 12)	(n = 2)	
Quarterly	5	9		14
1-3x year	3	2		5
None		1	2	3

### **Formal Versus Informal Processes**

Nine of the 11 franchisors interviewed emphasized the importance of formal board structures. Examples of formal board structure and processes include: how members are chosen, how long they serve, who attends the meetings, how agendas are established, the importance of establishing and using bylaws, and when and whether voting should occur. Franchisors tend to emphasize structure more heavily than franchisees. For example, a total of 73 instances of formal elements of board structure were mentioned by franchisors. Franchisees, on the other hand, mentioned formal elements of board structure in 53 instances.

One example of formal rules, cited by the franchisors, involved specific criteria that franchisees had to meet in order to run for office on the board. Typically, the standards required franchisees to be in compliance with the system targets, in terms of sales and operational measures, before their name could be listed on the ballot. Independent association boards, managed by franchisees, did not require these compliance measures.

### **Franchisee Members Communication Protocol**

The funneling of communication to the rank and file constituents varied widely among the franchisee board members. One franchisee, discussing how she

communicated back to her constituents, said, “I may come back from a meeting and call some of the key owners that I trust and say ‘what do you think about it [referring to a decision made by the council]?’” (MH, 8/13). Greg A. indicated his communication with franchisees is “not terribly structured” (GA, 1/31). On the other hand, Jason T. indicated when he was chair of the advisory council, he encouraged other members to communicate immediately after a meeting with a recap of what occurred (JT, 3/1).

### **Stakeholder Dynamics**

Dulewicz et al. (1995) had found that effective boards work together and have mutual trust in the relationship to allow for objectivity and constructive conflict. The relationships among board members may not only shape how they define their roles, but may also influence board behaviors and attitudes. Cornforth and Edwards’ (1999) posited four governance models: partnership, political, compliance, and supporters club, to identify board behavior. In considering these *a priori* themes, I asked participants a series of questions to understand how issues are surfaced, how boards reached agreement, what tensions existed on boards, and a characterization of the relationship between franchisor and franchisees on their board.

### **Power and Politics in Play**

Governance entrenched in the *political frame* is evident when groups attempt to garner authority. Political maneuverings and outright power plays were mentioned by all respondents. Both franchisors and franchisees commented on command and control behaviors that did, or could, operate in their boards’ environments. The examples ranged from not acknowledging the board, jockeying for position, attempting to divide and conquer, using backroom politics to sway opinions, and trading favors.

Cornforth and Edwards' (1999) described the political governance frame as dominated by the belief that members represent divergent interests. In this case, representatives rely more heavily on power and control to negotiate outcomes. I heard from four respondents how franchisors had failed to acknowledge, or work with, the boards. This lack of recognition created tension in these organizations. In two instances, the boards were affiliated with independent associations, and the other two boards were franchise advisory councils. Franklin C., a seasoned franchisee, shared the story of how his franchisor had resisted working with the franchise board up until the time the franchisor needed support for a corporate initiative. After the attempt to strong arm the franchisees failed, the franchisor sought out three members of the advisory board for advice. Franklin commented, "I told him I could make this [the project] happen, and it kinda felt like I was Jimmy Hoffa or something" (FC, 3/14). Through negotiations, Franklin secured more active recognition of the board. In return for the franchisor's agreement to work with the board, Franklin and his fellow advisory board members called every franchisee and convinced them to agree to the corporate project. Franklin's example illustrates a quid pro quo tactic that can be used by boards to achieve stature. This type of reluctance by the franchisor to participate on boards can occur when there is an ownership change, or when litigation against the franchisor is initiated.

A franchisee, Kevin S., commented that, after the sale of his franchise, the new owners ignored the advisory board for a period of time. This led to disgruntlement within the franchise community. The franchisees on the board held a separate meeting to gather a list of complaints to take back to the franchisor. Ultimately, their board disbanded due to their inability to have any influence (KS, 6/24). Franchisors may also disband councils

when they are unhappy with the tone of the organization. Dave H., a franchisor, shared that at one advisory council meeting with the franchisees, a franchisee read a letter into the record asking that the brand be sold. Dave recounted that the immediate reaction of the franchisor was to end the meeting, and within the next month the franchisor had appointed a new council (DH, 10/1).

Diane P.'s franchise organization cannot disband its independent association board, but she did indicate that management "does not take the board seriously." She explained how the franchisor worked around the board by co-opting key franchisee leaders. The franchisor was a private equity firm. Diane candidly acknowledged that equity firms were not interested in "long term relationships" with franchisees (DP, 4/2).

Other visible displays of power were also discussed. Franchisees reported not inviting the franchisor to attend conference calls, and having the lawyer for the association communicate to the franchisor by letter (MB, 3/3; GA, 1/31). Jerry M.'s organization had recently settled a lawsuit with their independent association. Jerry commented that, over his 20-year tenure with the franchisor, the current board had proven to be the most dysfunctional. He offered the colorful analogy that, at the moment, both sides were doing a "flamingo dance." Furthermore, he noted that neither side was reaching out to mend the relationship (JM, 5/16).

According to several interviewees, this idea of trading favors also played a role in how decisions were secured. One franchisor, Sam P., acknowledged, one of the "greatest" ways to secure agreement is by "horse-trading." When asked for examples of what was traded, Sam indicated it could be anything from the franchisor overlooking a board member's failure to meet an operational hurdle, to franchisees on the board being

given early rights to bid on a new territory (SP, 2/8). A franchisee also indicated that franchisors, aware of which franchisees were the leaders in the broader community, spent more time courting these individuals (JT, 3/1).

Finally, the choice of words used to reflect the governance process was mentioned by five of the franchisors. Jim O., a franchisor for a restaurant chain, said, “You have to be careful and not use the word ‘recommendations.’” He elaborated by stating “we are sharing and seeking input, not seeking approval, and that’s important” (JO, 10/4). Interestingly, no franchisees commented on the politics of word choice.

### **Working Together**

In describing a *partnership frame*, Cornforth and Edwards (1999) suggested the board members are engaged in adding strategic value and partner with management to achieve the vision of the organization. While some interviewees discussed their boards within the political frame of reference, other franchisees and franchisors focused more heavily on the participatory aspect of board behavior. Among the 22 interviews, half of the respondents, equally divided between franchisees and franchisors, discussed the need for the board to work together and grow the business. However, of the eleven respondents voicing this idea, only two franchisees indicated this type of behavior operated on their boards. By contrast, four franchisors described boards as solidly aligned with partnership as the goal.

A franchisee, Tom C., offered that his franchisor, as part of the franchising agreement, created a franchise advisory council to oversee the marketing funds. The franchisees on this board recommend the level of assessment. Once this recommendation had been made, all franchisees in the system voted. Tom mentioned that, not only did the

franchisor rely on the advisory council to handle marketing, but they also used the council as a sounding board on other issues. Tom attributed this relationship to the franchisor's good leadership skills and franchisee board members who had an attitude of wanting to make things work, versus taking an adversarial approach (TC, 8/11).

Connie G., the leader of an ad hoc franchisee council, indicated that her franchisor was at first concerned about the formation of the group. The group, however, worked hard not to let the calls become "bitch sessions" and the franchisor subsequently had joined the quarterly calls. When asked for her perception of the council's impact on the business, Connie offered that the board was "developing the brand." She went on to say that the council's brainstorming had led to several new product lines. Connie opined that her franchisor would offer a similar view of the council's effectiveness (CG, 9/22).

Beth M., the automotive franchisor, compared her company's franchise advisory council to a "board of directors." She added that she wants transparency with the board, and that the goal is to grow the business together. Furthermore, Beth suggested that the board relationship would deteriorate quickly if the franchisor started to carry "a big stick" or treated the franchisees like "children." In Beth's organization, the franchise-sponsored advisory council replaced an independent association.

George D., a franchisor in the restaurant industry, indicated that his organization has initiated a council in the past year because a recent ownership change created anxiety among the franchisees. Prior management, according to George, had not worked effectively with franchisees. He stated his belief that the franchise advisory council will heighten franchisee involvement. George reflected his belief in partnership when he said, "the relationship has to be led through participation, input and alignment" (GD, 6/12).

## **A United Front**

Cornforth and Edwards (1999) described boards operating in the *supporters club frame*, as ones which focus on managing relationships with external audiences. The idea that boards serve as a mechanism to show alignment to outside audiences was noted by half of the respondents. These outside audiences could include franchisees, prospective franchisees, Wall Street investors, and even customers. It is not uncommon for franchise boards that file litigation against the franchisor to appear in the mainstream press. Franklin C., a franchisee, pointed out that bad publicity hurts both sides, and boards need to be diplomatic to avoid “mutual annihilation” (FC, 3/14).

David B. pointed out the importance for franchisee board members to believe in the essence of the brand and to have an accepting attitude. He maintained that, if franchisee board members believe the brand is “dead,” then they will fight every idea. Dave indicated that in his organization, the board’s relationship was still emerging, but the new CEO had convinced the franchisees on the board that he cared about the relationship (DB, 3/14).

Both franchisees and franchisors mentioned the danger when franchisees come to be viewed as mouthpieces for the corporation (SP, 2/8; KS, 6/24; TR, 7/14). In this situation, the board loses their credibility with the franchisees and they become less valuable to the franchisor. How franchisees were coopted focused on the “wining and dining” aspect of being on the board. Examples of benefits bestowed on franchisee board members included: being picked up by car services at the airport, being present to ring the New York Stock Exchange opening day bell when the stock went public, meeting with the upper echelon of corporate management, having board meetings in desirable



locations paid for by the corporation, and receiving tickets to premier events.

Franchisees were upfront about the possible perks for serving on the board. Each recognized the risk of functioning like a rubber stamp, as opposed to the positive aspect of providing shared accountability for managing the business.

Melissa H.'s experience as a "supporter" differed from the others interviewed. Melissa's franchisor invites her to speak to new groups of franchisees and help with their training. Her franchisor also has a group of high-performing stores with permanent seats on its advisory council. According to Melissa, the franchise advisory council is a mix of established franchisees and new franchisees deemed by the franchisor to be up and coming leaders in the system. In this organization, apparently they have followed the mantra, "once a member -- always a member" of the franchise advisory council (MH, 8/13).

### **Dynamic Tension**

Under the *monitoring frame* ensuring compliance is a key board activity. As noted earlier, franchisees were more likely to mention monitoring as a key role of the board than were franchisors. When the franchisors discussed monitoring, it was in a limited context. One franchisor, Sam P., offered the idea that, ideally franchisee board members would monitor other franchisees. Sam acknowledged, however, that this was probably "delusional thinking," as it would be highly unlikely for franchisee board members to shine a negative spotlight on those who elected them (SP, 2/8).

In another example of franchisor monitoring, Jerry M. discussed how his organization had taken the lead on communicating to the rank and file franchisees. Jerry indicated that his organization, frustrated with franchisee board members not

communicating information back to their constituents, has stepped in to fill the void with the following process:

Every time there is a vote we [corporate] send out what happened immediately to every franchisee. Within eight hours, the franchisees know how their board members voted. . . We just started doing this and have already gotten thanked by franchisees in the system. (JM, 5/16)

Jerry candidly admitted that, from his vantage point, both the franchisor and franchisee board members should receive failing grades for communication. According to Jerry, this new practice would force “both sides to mind their p’s and q’s” (JM, 5/16).

Franchisees on these boards brought up monitoring in a variety of contexts. Some discussed boards needing financial power to retain lawyers in case litigation is necessary to protect franchisee interests. Others discussed monitoring as a means to block franchisors from making operational changes that require capital investment on the part of the franchisees. Still others, such as franchisee Toby R., discussed monitoring in a more low-key manner. He offered the example of ensuring that test marketing of new products occurred prior to national launch.

Franchisee Dale C. was working with his fourth franchisor owner. The independent association in this franchise took root over twenty years ago when the firm was expected to go bankrupt. An elected board of franchisees governed this association with Dale serving as the long-standing president. Dale indicated that the board had met two years previous to his interview with the franchisor and had gone through a list of grievances. He added that little had been done to address the issues, which was why the board was starting to take action.

Franchisee Franklin C., similar to Dale, had witnessed multiple ownership changes of his brand. Franklin made no bones about it; the contract favors the franchisor,

not the franchisee. Therefore, in his opinion, the board functioned as an “agitator” to protect the franchisees (FC, 3/14). Tim T. commented that he was not a fan of his own board because the leadership “likes to send up smoke signals so the tribes can come together and the board members can tell each other about how the white men [the franchisors] are stealing our [the franchisees’] women and children.” According to Tim, franchisee board members were focused on being watchdogs to enhance their own credibility with the rest of the franchisees in the system (TT, 2/8).

The monitoring role of boards was also raised by franchisees serving on franchise advisory councils. Jason T.’s experience had been both positive and negative. In earlier ownership regimes, he commented that the advisory council was involved in decision-making, even to the point of selecting the advertising agency. Under the then-current management, however, Jason indicated that the franchisor was more focused on “ramming” things through. He maintained that the council provides “checks and balances.” Jason’s organization had both a franchise advisory council, on which he served, and an independent association board that the franchisor did not recognize, but regularly met with “out of courtesy” (JT, 3/1).

### **Attributes for a Successful Board Relationship**

Participants were asked what attributes are needed for a good board-franchisor relationship. Half of the franchisees interviewed offered the terms openness, trust, and transparency. Franchisee Jason T. commented that honest engagement was needed, while Kevin S. focused on transparency. Connie G. expressed the need for open communication in a non-threatening manner.

Half of the franchisors echoed the qualities of openness, trust and transparency, as needed elements for effective boards. Don H. offered the thought that, if franchisors and franchisees on the board trusted each other, then they created an environment in which they can get things done (DH, 10/1). George D. offered his opinion that “trust is at the heart of it.” He went on to say that “board members need to be able to speak openly and frankly and should be shielded from politics” (GD, 6/12). Jerry M. offered the thought that you must have transparency on both sides. Regarding transparency, he went on to say:

That means if you have warts on your face you can’t cover them up, you have to show them. Where our board has fallen down in the past is that there have been hidden agendas on both sides. One side or the other hasn’t been transparent. (JM, 5/16)

Another needed attribute offered by nine respondents, almost equally split between franchisees and franchisors, was the idea that the board must be focused on common goals. Franchisee Jason T. suggested both sides must work towards the common goal of making the brand better (JT, 3/1). Kevin S. practically mirrored this answer, but added that everyone must be working towards making money. He commented “I know this sounds like capitalism, but we are not operating non-profits” (KS, 6/24). Franchisor Diane P. offered that she believes there must be common understanding of business strategy and respect for both long-term and short-term needs. She added, “you need to speak in each other’s language and have a stake in each other’s businesses” (DP, 4/2). Another poignant explanation of sharing a common goal that’s diametrically opposite of making money, but equally relevant, was shared by Dale C. who commented, “We are both in this canoe. If I see he [the franchisor] is going

underwater, then I don't think I should be giddy happy. After all, I'm on the other end of that boat and I'll be going down too" (DC, 5/6).

### **Influence of Board Type**

When the themes were examined by the three types of boards (ad hoc councils, franchise advisory councils, and independent associations), the most significant differences appeared between ad hoc councils and the two other board types. Franchisees on the two ad hoc councils offered more narrow views of boards' roles and, not surprisingly, they had less formal governance. With respect to why boards form, there was high similarity between the three board types, with independent association members slightly more likely to suggest stress, and a little less likely to mention communication.

Although independent association members did not mention communication as the primary reason for forming, they favored this as a role of the board, even over representation. The role of representation was noted by more franchise advisory council members. Monitoring, however, was a role favored by those on independent associations over the other types of boards. The three types of boards showed similarities with respect to dynamics, with two exceptions. Franchise advisory councils members spoke more often about having a united front than either ad hoc councils or independent association members. Meanwhile, independent association members spoke more about monitoring than either type of council.

The desirable attributes of trust, openness and transparency surfaced amongst members of all board types, with franchise advisory council members showing slightly more emphasis on these qualities. Ad hoc council members did not mention the need for common values, but this was mentioned by half of those on franchise advisory councils,

and to a limited degree by members of independent associations. Table 5 provides a summary of themes by type of board.

Table 5  
*Themes by Board Type*

Board Types and Themes	Ad Hoc Councils	Advisory Councils	Independent Associations
Reasons for Board Formation	Stress on the system; followed by need for communication	Stress on the system; need for communication; desire for control	Stress on the system; need for communication; desire for control
Board Roles	Sharing news; decision-making; and camaraderie	Representation; spreading news; legitimizing decisions; and decision-making	Spreading the news; representation; monitoring; and legitimizing decisions
Governance Processes	Everyone invited; Relies on conference calls	Election process; face-to-face meetings held	Election process; face-to-face meetings held
Dynamics on Board	Power and politics; followed by working together	Power and politics; with equal emphasis on working together and providing a united front	Power and politics; followed by tension and monitoring
Desired Attributes	Trust, openness and transparency	Trust, openness and transparency; followed by common goals	Trust, openness and transparency; followed by common goals

## Chapter Summary

Four research questions guided this study. The first question was: *What precipitates board formation?* Significant commonality was found between franchisor and franchisee perspectives on the primary reasons why boards originate. Both sides

recognized stress as a precursor to board formation. In addition, franchisors and franchisees identified boards as a means to exchange information and pool resources. These findings offer empirical support to practitioner theories espoused in franchising trade journals, and on franchising consultant websites.

The idea that franchisors form boards as a mechanism to prevent independent franchise associations from arising is widely referenced in practitioner literature. Amongst this group of interviewees, however, only a small number of franchisors mentioned this as a motive. One possibility is that franchisors were reluctant to admit this more nefarious rationale. It is also possible, and perhaps more likely in today's competitive environment, that franchisors understand the value of an open communication channel with franchisees and the importance of leveraging franchisees' knowledge.

The findings in Phase 1 of this study did not suggest that having a franchise board in place is a panacea for creating trust or building a collaborative relationship between franchisees and franchisors. Rather, this exploratory study provides some evidence that the four types of board stakeholder relationships (allies, agents, antagonists, and activists), outlined in the conceptual framework, were all operating to varying degrees among the 22 franchising organizations being studied.

Furthermore, the findings suggest that boards are apt to slide between the grids in the stakeholder model when major events occur in the systems. It is a relatively common practice for private equity firms to purchase franchise organizations out of bankruptcy, or from the original owners who wish to divest. These equity firms typically have less reason to build franchise relationships, given their expectation is for short-term

ownership. A possible outcome of private equity ownership may be for a franchise advisory council to morph into a franchise association and thus to offer franchisees the “insurance” that their interests are represented. A change in board type is likely to impact the type of stakeholder relationship operating.

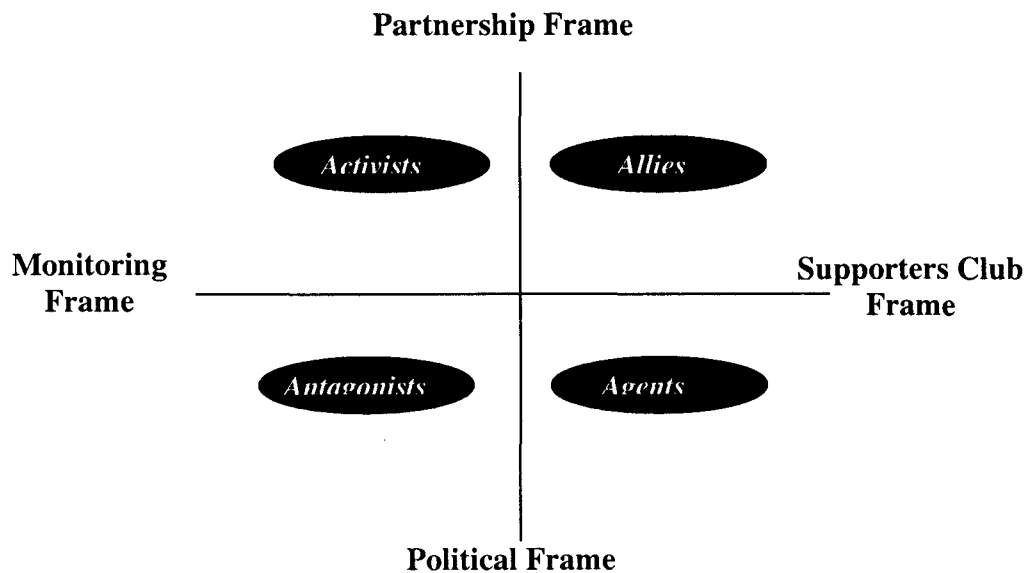
The second research question of this study was: *What roles do franchise boards play?* Both franchisees and franchisors emphasized that the board functioned as a communication forum and opportunity to pool resources. After agreeing on this point, however, the franchisees’ and franchisors’ positions on roles eventually diverged. Franchisors focused on representation of the broader franchise system, along with the ability of the board to legitimize decisions. Meanwhile, franchisees focused on monitoring the franchisor and being part of the decision-making process. This discovery suggests the need for boards to regularly conduct self-assessments to rethink members’ roles and work on building trust in the relationship.

The third research question was: *What governance structures operate within franchise boards?* One prominent finding is that both independent associations and franchise advisory councils rely heavily on election processes. Only two franchisors appointed their board members. One of those two boards had since been disbanded. Not surprisingly, in-person board meetings were also very common among independent associations and franchise advisory councils, while ad hoc councils relied more on conference calls. Informal aspects of franchise boards centered around how franchisee board members communicated (or failed to communicate) information back to the rank and file franchisees. This finding may be traced back to franchisee board members not actively acknowledging their role in the democratic process as one of educating



constituents about what they learn. Further research on rank and file franchisees could determine the scope of this issue.

The fourth research question was: *What type of stakeholder relationships are operating amongst franchise boards?* This question is directly linked to my conceptual framework. I postulate that a grid typology for franchise boards can be used to identify whether the boards operate as: antagonists, agents, activists, or allies. The framework relies on four governance models to help identify the behavior and attitudes of board members. The results from the interviews, as noted earlier, illustrated that all four stakeholder relationships occur, and the framework appears to be a good fit. The conceptual framework is reintroduced in Figure 7.



*Figure 7.* Conceptual framework illustrating the four governance processes defined by Cornforth and Edwards' (1999) and the application of stakeholder relationships by quadrant.

### **Allies**

Franchise boards that tend to behave as partners, and whose members share an attitude of allegiance to one another, can be classified as allies. These boards are focused

on building the business together, and stand united in their representation to external audiences. A high level of trust is evident between the two groups.

Tom C., a franchisee in the brokerage services category, provided an example of this relationship. Beth M., an automotive franchisor, also described her franchise advisory alliance in terms that indicated high participation from franchisees, with strong promotion from the franchisor that these franchisee board members are “model” citizens in the system (BM, 9/2).

### **Agents**

The agent stakeholder relationship is positioned between the supporters club and political models. These boards focus on demonstrating unity to external audiences, but often use political capital to negotiate outcomes. Franchisors in this relationship are seeking the board to confer legitimacy on their proposals to bring the rest of the system along. Meanwhile, franchisees in this quadrant are garnering stature in the system, as well as enjoying the perks that membership confers.

Franchisor Donny L.’s board appeared to be situated in this quadrant. Donny discussed the idea of “pre-meeting politicking” taking place prior to the meeting (DL, 12/31). This tactic allows corporate to more easily “sell” in the initiative that the franchisor desires. Sam P.’s board also appears to be in an agent stakeholder relationship. Sam stated that the number one role of the board is to give credibility to leadership decisions. While Sam stated that he wants franchisee input and voices to be heard, he indicated he takes great care not to let the council turn into a “mother may I situation.” He also indicated that you “horse trade, you play the game of trading one thing for another” (SP, 2/8).

## **Antagonists**

This stakeholder relationship is the most volatile because both parties are driven to accumulate power. The two governance models in play are the political frame and the monitoring frame. Franchisees in this relationship often have extensive grievances with the franchisor and may even have a history of litigation or may be undergoing litigation currently. Franchisors in this situation have a mindset of command and control.

A number of interviewees aptly described antagonistic stakeholder board relationships, including Dale C., Kevin S., Jim O., and Jerry M. Franchisor, Jim O., characterized his current council functioning with a level of tension because when he came into position he “took power away from the group.” Kevin S.’s board ultimately disbanded due to the deterioration of the relationship. Franchisor Jerry M. noted that there were numerous hidden agendas operating on his board, and he had “never seen the system as divided as it is today.” Jerry went on to say that there were private closed-door sessions, without corporate in attendance, in which franchisee board members were “telling other franchisee board members how to act towards the franchisor” (JM, 5/16).

## **Activists**

In the activist stakeholder relationship, there is a high level of participation from the franchisees. There is also, however, recognition that each side operates from a different vantage point. Because there is acknowledgement about divergent interests, the monitoring aspect of the board is conducted without malice.

Ron P.’s board appeared to be thriving in this space. Ron indicated that for several years there had been an adversarial relationship, but an offsite meeting last year helped turn around the relationship. Ron reported that there had emerged a “vigorous

debate,” but it represented constructive conflict, as opposed to the “yelling and name calling” that operated in the past (RB, 4/25). In an opposite situation, franchisee, Jason T. pointed out that prior corporate leadership on the franchise advisory council allowed for a high level of franchisee board involvement in key decisions, and “franchisees were treated as the guys who had all the ideas.” John went on to say that while the then-current management was “well-meaning” they were using the council to give credibility to their decisions in order to sell the idea to the larger group of franchisees (JT, 3/1). It would appear that Jason’s advisory council had shifted from activist stakeholders to agent stakeholders under the new franchisor.

This chapter presented Phase 1 findings associated with the four main research questions guiding the study. Chapter five presents three in-depth case studies of franchise boards in action. These case studies allow for additional data to help identify the applicability of the conceptual framework as a tool for classifying board relationships.

## CHAPTER V

### PHASE 2 FINDINGS

#### **Introduction**

The three franchise organizations studied in this research are U.S. based firms with no international presence. These franchise systems spanned multiple industries and included a restaurant chain, a health service organization, and a personal service firm. Two of the organizations were privately held, and the original owners were still involved. In the third case, a private equity firm owned the brand.

I used the following methods to gather the data for each case: (a) multiple interviews with 25 board members and regular attendees of these meetings; (b) approximately 34.5 hours of observation from four board meetings and 14 conference calls; (d) attendance at 3 board member dinners; and (e) review of board bylaws, meeting agendas, and meeting minutes. All interviews were taped and transcribed, and I recorded observations at meetings and on conference calls. Constant comparative analysis was used to analyze the data according to the following research questions:

1. Why do franchise advisory boards form?
2. How do franchisee and franchisor board members view the roles of these boards?
3. How are boards structured?
4. What types of stakeholder relationships exist?

The first section in this chapter provides an overview of the three franchise boards and a description of the board members. The subsequent sections address each of the research questions, in turn, for each case. A cross case analysis is provided at the conclusion of each of these sections to compare the patterns found amongst the three boards.

### **The Three Corporations and Their Franchisee Boards**

#### **Portini's Restaurant**

Portini's is a small restaurant chain located on the West Coast. The restaurant's original owner, Joe, and his wife, Debbie, began franchising their restaurant in the early 1980s. Debbie is no longer a part of the business due to her divorce from Joe and his buy-out of her half of the company. Currently, Portini's has 95 franchisees in the system; most are one-store operators. The largest franchisee owns five restaurants. The franchise corporation owns and operates 30 restaurants for a 80/20 split between franchisees versus corporate-owned units. Despite a weak economic environment, sales over the last year have been positive for both franchisees and corporate stores based on monthly operator reports (Observations, 3/29; 5/19; 6/10; 7/28; 9/26). Joe, the founder, is still involved in the system, but he no longer attends franchise advisory council meetings.

When I refer to Portini's franchise advisory council, I will use the abbreviation FAC. The FAC operates under a set of bylaws that were shared with me by the franchisor. Over a six-month period, I attended two board meetings, two board dinners, and three conference calls. In addition, I interviewed every member of the FAC, two regular attendees, one alternate member of the board, the board secretary and Joe, the original owner of Portini's. Along with the formal interviews, I had multiple informal conversations with FAC members during meetings and dinners.

**Current board members.** The Portini's board is composed of five elected franchisees based on five geographic districts. In addition, key participants include an elected chair, an elected vice chair, and the corporation's president. Current members include a mix of long-standing franchisees, and one newcomer, to the board who was elected last December. The franchisee board member with the most extensive history on the FAC is Marty A. A franchisee since the early 1990's, Marty has been a member of the board for almost as long as he has been in the system. The owner of three units, Marty noted that he and his wife have served the FAC in multiple roles over the years, including holding the positions of chair and vice chair. Currently, Marty represents one of the five districts.

Betty H. has been a member of the board for ten years. She operates one unit. Betty's husband, Gordon, serves as the elected vice chair of the FAC. Mitchell G. is one of the larger operators, owning five units. Mitchell G. is in his second term, but at the recent national convention, he indicated to me that he might not seek office in the future. Another franchisee board member, Mel S., is in his second term. Mel has recently sold his unit and will be exiting the system to move East for family reasons. Due to the franchisor's comment that Mel's leaving the system was "bad news for us," the parting appears amicable. Karen F. is the newest and youngest member of the council. She has been in the system for three years and is serving her first term in office.

The franchisor's chief operations officer, Ken M., is the elected chair of the FAC. Ken, in prior years, was a Portini's franchisee. Matt P., the president of the corporation, represents the franchise office and has been with Portini's for 13 years. He has held the position of president of the franchise for the last three of those years. The franchisor's

director of marketing, Dee B., attends all meetings. A representative of the brand's advertising agency, Danny S., also joins every conference call and board meeting. Finally, the secretary, Beverly P., attends meetings and calls to take notes. Beverly is a corporate employee of the franchisor.

### **Zen Masters**

The second case, Zen Masters, is a consumer service health-oriented franchise that was founded by a husband and wife team in 2004. The owners began franchising several years later and have expanded into 18 states. There are approximately 58 franchisees in the system, most operating one store. There are three corporate owned stores for a 5/95 split between corporate and franchise units. Based on sales reports from board meetings, both the corporate stores and franchisee stores have had low single digit sales growth over the last 6 months (Observations, 3/9; 3/31; 4/27; 5/20; 6/21; 8/31; 9/18; 10/19, all 2011). The franchisor initially raised the issue of a national advisory council at the 2010 national convention. In early 2011, the first council was elected, and the first conference call occurred in March of that same year.

I will refer to Zen Masters council as the national advisory council (NAC). Though a relatively new council, they do have a set of bylaws they refer to as "The Rules of the NAC." These were shared with me by the franchisor. Over a six-month period, I attended the inaugural board meeting, a board dinner, and a board meeting that was held before the national convention. I also observed five conference calls. Finally, I interviewed every member of the NAC and held numerous casual conversations with these individuals.

**Current board members.** All five elected franchisee members have served on the NAC for less than a year. Two of the franchisee board members, Jay D. and Travis



G., have been franchisees of Zen Masters for five years. Travis operates one unit, and was nominated by the NAC to serve as chair. Jay D. is the largest operator with eight units in total.

Tori C., a franchisee representing the West region, has owned one unit for three years. Franchisee NAC member, Dusty D., currently operates two units. Pete E., considered one of the most financially successful franchisees, operates two units and is about to open a third. Pete has been in the system just shy of three years.

Finally, the franchisor representative, Shelly E., is one of the original owners and holds the title of chief operations officer. She and her husband opened the first Zen Masters in 2004 and quickly shifted to a franchise model when the concept “took off.” Shelly’s background is in sales and marketing. As the corporate representative, she is designated as the vice chair on the NAC. On limited occasions, the director of marketing from the corporation has joined the NAC to address a specific issue.

### **Euro Salon**

The third case, Euro Salon, a personal-service franchise system, has had multiple types of franchise boards over the years. The organization’s founder started the company in the 1970’s, but has since passed away. The firm has been through multiple owners, as well as survived bankruptcy proceedings. There are approximately 1,300 points of distribution, with an 80/20 split between franchise and corporate owned units. An equity firm on the East coast is the current franchisor. Presently, at Euro Salon, there are approximately 30 top-tier franchisees that own regions of the country. They can operate units, as well as license the brand name to other individuals. The current franchisor is increasing the number of corporate owned units through buy-back acquisitions from franchisees. The board does not discuss sales at meetings, but this larger chain’s

financial information was publicly reported. Industry data indicated that while overall sales growth has increased by 1.5% over the last year years, the number of outlets for the franchise has shrunk by 6% (Maze, 2009; Maze, 2010, Maze, 2011).

At Euro Salon, two franchise boards co-exist and they are loosely linked. The first is an independent franchise association, which has existed for over 20 years. I will refer to this board as InFA. When the franchisees became concerned that the brand would file for bankruptcy, they banded together and created InFA. This board is a legal entity offering a level of protection to franchisees. When a former franchisor filed bankruptcy in the 1990s, InFA made a bid to purchase the company. The bid failed and an equity firm acquired the brand. All of the top-tier franchisees are members of InFA. The InFA board meets once every other year or when needed.

The second board, and the focus of this study, is the franchise advertising board, which will be referred to as the FAB. Though not all interviewees agreed on when the FAB was formed, all did agree that it has existed for many years. Perhaps the best source is Theresa N., the FAB's administrator. Theresa is the sole employee of the FAB, and has worked for the board since the day it was initiated. She indicated that the FAB was created when the original owner began to franchise units in the early 1980s. The FAB collects advertising funds from franchisees on a weekly basis. These pooled monies are collected to enable the regions to test new products and market new services. Eighty-five percent of the monies are used to pay for advertising efforts the franchisees themselves undertake. Each franchisee is told their budget, and once they spend money for approved marketing tactics, they can send in their receipts for repayment of those expenditures. Theresa then sends the franchisee a reimbursement check. The remaining fifteen percent

of the monies collected from the franchisees are pooled to cover the cost of developing creative and marketing materials, as well as funding her position as FAB administrator.

In addition to InFA and the FAB, the current president of the FAB, franchisee Adam G., shared with me that the former owners created a franchise advisory council. The six appointed members of this council had monthly conference calls with the president of the corporation. Adam indicated that, when the current equity firm purchased the brand, this group dissolved (AG, 1/31).

The FAB's annual meeting occurred in February before my research began. Their second meeting occurred just as I was beginning my research, and the advertising agency was uncomfortable with an outsider's presence. There were no additional meetings planned during my data collection. I did attend five of the FAB conference calls. I received a copy of the bylaws and the FAB policy statement from the president of the board, Adam, a franchisee whom I have interviewed twice. Additionally, I interviewed the CEO and board member of the franchise corporate office, the FAB administrator, three of the other five FAB members, and the president of the ad agency, who attends the monthly conference calls.

**Current board members.** The FAB is dominated by seasoned franchisees, but there are two newcomers in their midst. The four top-tier franchisees have each been part of the organization for numerous years. These top-tier franchisees are elected to serve on the FAB. The President of the FAB, Adam G., has over 20 years in the system as a franchisee. As he phrased it, "I have served multiple tours in office for the FAB" (AG, 1/31). Adam is one of the larger franchisee operators in the chain with 90 units. Nelson N. came into the organization from a family connection. Nelson's father was one of the

early franchisees; Nelson and his brothers have since bought territories. He has been an owner for 10 years and became involved with the FAB when someone on the council nominated him for office a few years ago. David B. a long-term franchisee owner, is only in his second term of office. The third top-tier franchisee owner, Terry B., was not available for an interview and was absent from four of the five conference calls I attended.

Two other members are second-tier franchisees, and they were appointed by the four elected franchisee members. John, a second-tier franchisee, became involved from a family connection. John's father had been an operator since the 1980s and served on the FAB Council in prior years. Amy B. is also a second-tier franchisee, a relative newcomer to the organization; she was appointed to FAB just last year.

Steve C., the franchisor representative on the board, is the CEO of the parent corporation, which in this case is an equity firm. Steve has been in his position for six years. He came from a large franchise restaurant chain and had experience with franchise boards. Although not a member, Rita S., the corporation's director of marketing, is regularly on the calls. Rita has only been in her position for a year. Also in attendance on every call is Sean O. Sean is the president of Euro Salon's advertising agency. The agency has been employed by FAB for over 25 years. Finally, FAB's administrator, the one paid employee of FAB, Theresa, attends every call and meeting.

### **Cross Case Comparison**

The three cases examined in this study represent a variety of industries and variously-sized organizations. Two boards are in their mature life stage, and one still in its infancy. All three boards rely on elections, though Euro Salon is a hybrid that relies

on both elections and appointment. The four top tier Euro Salon franchisees are elected by their regions and in turn they appoint the two second tier franchisees. Each of the boards has a similar number of members, and each operates with a set of written bylaws. In the two more established boards, Portini's and Euro Salon, these bylaws are extremely detailed. In contrast, the Zen Masters bylaws are relatively short and based on a template from the International Franchising Association. Two boards, Portini's and Zen Masters, are classified as franchise advisory councils, while Euro Salon is a registered board in one of the 50 states. Among the three cases studied, Euro Salon is the only one where an independent franchise association also operates. The four top tier franchisees are all members of the franchise association. Table 6 provides an overview of the boards.

Table 6  
*Overview of Cases*

<b>Case</b>	<b>Portini's</b>	<b>Zen Masters</b>	<b>Euro Salon</b>
<b>Industry</b>	Restaurant	Health Service	Personal Service
<b>Total # Units</b>	150	70	1,300
<b>Type of Board</b>	Franchise Advisory Council	Franchise Advisory Council	Franchise Independent Board
<b>Independent Association Exits</b>	No	No	Yes
<b>Age of Board (years)</b>	20-25	<1	30+
<b>Total # of Board Members</b>	7	6	7
<b>Elected or Appointed</b>	Elected	Elected	Elected + Appointed

## **The Origins and Functioning of the Associations**

### **Portini's**

An interview with the original owner, Joe, provided a backdrop for the formation of Portini's FAC. Joe acknowledged that he started the council to avoid having to "say no" to the franchisees (JL, 9/26). Once 40 franchisees were in the system, Joe found his time being absorbed by listening to franchisees' ideas on everything from the type of cookies to sell, to how to design the store. He thought that instituting a FAC would help him hear about the franchisees' ideas, but also allow others in the system to play a role in decision-making. Joe said:

At our first FAC meeting, we had 89 items on the agenda. I purposefully put every idea down. Once people saw how many items franchisees desired, it helped convince them we couldn't do everything everyone wanted. (JL, 9/26)

Joe specified in the bylaws that the FAC was only an advisory group, but he incorporated language to ensure that only franchisee members could cast votes. While there are currently two corporate representatives on the board, the president (Matt P.) and the chief operations officer (Ken M.), neither participates in voting unless a tie ensues.

The FAC votes on marketing promotions, operational issues, and new product offerings. Joe stressed that neither he, nor his current president, has ever over-ridden a council's decision. Joe's outlined his philosophical stance on how to build a strong franchise as follows:

Dictatorship doesn't work. Democracy, on the other hand, is an under-utilized tool. But you [the franchisor] have to give up the fact the council is not just advisory and you have to be willing to live by their vote. They [franchisee board members] have to be allowed to stub their toe in the process. (JL, 9/26)

By allowing the FAC to set policies, approve marketing campaigns, and help to develop new products, Joe mused that this strategy makes it harder for the franchisees to "attack

corporate.” Furthermore, Joe spoke about a monitoring role that the council plays when he added:

They [franchisee council members] let us know when there are problems in the community. They watch over the community, and if they see problems, such as old bread being served, or poor labor practices operating, they bring these to us. There are no secrets. They deliver the word and take the heat from constituents on how they vote. (JL, 9/26)

Joe’s description of the FAC’s purpose mirrors the bylaws, which specify that the FAC is designed to “promote open and candid communications between the franchisees and parent company.” Moreover, the bylaws specifically list tasks for the council to tackle. These include advising on the image, deciding on the advertising, approving new products, and specifying operational guidelines (P. bylaws).

The formation of the board by Joe and the “rules” guiding the board illustrate a degree of partnership operating from the franchisor’s perspective. Current members of the board offered additional evidence that Portini’s FAC remains true to the initial mission of seeking input. Ken M., a corporate employee and the board’s chair, said, “When the company started to grow, FAC was put into place so that it wouldn’t just be corporate decisions” (KM, 4/8). The president of the brand, Matt P, provided additional insights about growth. He noted that the board was even more important in the chain’s early years because, at that time, corporate only owned 3% of the units. Matt clarified this comment by sharing that, with so few corporate units in the beginning, it was key to have franchisee involvement in the decision-making process. Matt followed with:

Franchisees have to have a seat at the table . . . They have to have a part in the decision-making process. When push comes to shove, we [corporate] will make the decisions that we believe we have to make when we have to make them. But we try in every sense of the word to involve our franchisees....we don’t make any decisions without consulting those franchisees on the council, they are a part of the process. (MP, 10/3)

Marty A., the longest serving franchisee FAC member, supported this assessment. He described how other board members encouraged him to run for office in the early 1990s. Reflecting back, Marty said his peers told him “that they [the corporation] never overrode the council’s decisions.” Marty indicated he found this idea intriguing because it meant that his input would be valuable. He illustrated with an example of how the owner, Joe, took the four board members (at that time there were only four districts) to Las Vegas, Reno and Los Angeles to participate in the advertising agency review. Marty said that he and his peers helped Joe select the agency of record (MA, 4/11).

### **Zen Masters**

In an interview, Shelly E., one of the owners of Zen Masters, indicated that the NAC was initiated for two reasons. First, accelerated growth in large geographic regions meant that it was becoming harder for corporate to stay in tune with issues. Shelly pointed out that the NAC helps collect ideas, track issues, and keep a pulse on the competition. She went on to say:

We knew we needed to use the expertise of the franchisees in the markets as operators, as well as their former expertise from other organizations, to help us grow the company. Instead of 70 franchisees coming at us with all of their ideas, it seemed like forming a council would allow us to have some control and show the franchisees we cared about what was on their minds. (SE, 10/3)

Second, Shelly explained that she and her husband were dealing with a heated issue about the Internet with a number of franchisees. The controversy centered on the URL address, with corporate wanting to require all franchisees to use the same corporate URL, as opposed to continuing with URL’s they may have already established. In concluding her thoughts about the council’s formation, Shelly noted that she and her husband thought a council was needed “sooner versus later,” and they hoped this new entity would address the “chaos” that had erupted over the Internet issue (SE, 10/3).



All franchisee board members uniformly noted that the growth of the system created a need for a more formal process to allow for franchisee input. Tori, the West's region council member, commented that communication between franchisees and franchisor was becoming harder as the chain grew in size (TC, 9/29). Franchisee Dusty D. also offered that communication had become difficult as the organization had expanded into new geographic territories (DD, 10/4). Two NAC members, however, did acknowledge that there was some unrest in the system. Pete E. explained, "The corporation was fighting with certain franchisees who felt they were not getting enough attention." Pete continued, "I sympathized with the corporation because I understand the dilemma of a business person being pulled in so many directions" (PE, 9/19).

### **Euro Salon**

Theresa N., the FAB's administrator, indicated that the Euro Salon board was initiated to govern the advertising funds (TN, 10/7). Sean O., the advertising agency president, provided a more detailed explanation. Sean, like Theresa, has also been part of the FAB since its inception. He noted that the board was the brainchild of a top-tier franchisee who had come into the organization with prior franchising experience. According to Sean, this franchisee wanted some control of marketing so he "pushed for the creation" of the board. The original owner of Euro Salon agreed to this formal structure because he had been paying for the advertising out of his own pocket. With the creation of the FAB, an advertising budget would now be funded by the franchisees (SO, 10/17). Franchisee Adam G., the current president of the FAB, said that the original owner had to have his "hand smacked" a few times for wanting to dip into the funds.

Adam attributes the reason for the tension between the franchisor and franchisees serving on the FAB to the large sum of money that the board oversees (AG, 8/22).

Other franchisee FAB members also attributed the formation of the board as a mechanism to manage advertising and to watch over the marketing dollars. John R. said that FAB was started to “protect money from the home office” (JR, 10/3). David B., outlined four reasons FAB formed, including: ensuring high-quality advertising; redistributing funds to allow for local marketing; building a fund for possible national advertising; and keeping the budget away from corporate control. David commented that the funds should be “managed away from political influence.” He went on to say that it “is a really good thing that FAB is not under the control of corporate” (DB, 10/31). Even the CEO of the parent corporation, Steve, acknowledged the monitoring aspect that FAB performs. Steve reported that an “urban legend” circulates that the founder was accused of trying to dip into the ad funds and the FAB came to the rescue (SC, 9/29).

### **Cross Case Comparison**

The themes that emerged from the three cases validated prior evidence from Phase 1 and confirmed practitioner theories regarding the impetus for board formation. It is the need to exchange information and pool resources that prompts franchisors to initiate these boards. While communication appears to be at the epicenter of board formation, there was also evidence, from two cases, that tension in the system can also serve as a trigger. The Internet marketing issue served as the other catalyst for the owners of Zen Masters to initiate the NAC. Although Euro Salon’s FAB was formed prior to the rise of their independent association, the franchisees organized InFA when the franchisor

appeared headed for bankruptcy. InFA is a second board that operates alongside the FAB. These case findings add additional credence to the interviewees from Phase 1, many of whom attributed board formation to the onset of some unfavorable systemic issue.

### **The Boards' Roles**

#### **Portini's**

The current president of Portini's, Matt P., offered a wide range of roles the FAC plays. Outlining the FAC's responsibilities, Matt noted that the council keeps corporate in tune with what's going on out in the system and helps corporate make decisions. He followed this observation with the comment:

The [FAC members] clearly have a role with decisions made relative to budgets, relative to advertising decisions, and a significant voice in product related decisions. That doesn't mean we [corporate] wouldn't go out and select a pickle, but if it's a significant product decision, they are involved. (MP, 3/21)

From his vantage point, Matt views FAC members as having a clear responsibility for decision-making with respect to budgets, advertising and product development. He referred to the FAC members as "leaders" and "model franchisees." Matt also mentioned that the FAC members mentor newer franchisees (MP, 3/21).

Matt's responses mirrored the founder's views on one level. Joe, Portini's founder, commented that the FAC serves as a "bridge between franchisees and corporate." Moreover, Joe suggested the role of the FAC is to help "set policies, develop advertising, offer new ideas and test new products" (JL, 9/26). There were, however, important differences, between how Joe and Matt prioritized the roles of the FAC. For example, Joe opined that the FAC also plays a role in legitimizing decisions to the broader franchisee community. Matt, on the other hand, focused on how the franchisee

members of the FAC keep corporate honest. When asked about the most important role the FAC plays, Matt responded:

I think the most important thing they do is keep us [the franchisor] in tune with what's going on out there. They talk to the issues that affect our restaurants at ground level on a daily basis. . . . Because our franchisees are in their restaurants every day, they are the foot soldiers. They are in direct contact with our guests on a regular basis. They keep an ear to the ground and they keep our nose to the grindstone to allow us to make educated decisions. (MP, 3/21)

Meanwhile, the five-franchisee FAC members focused on their role of guiding the decisions made by the organization. Several franchisees also referenced the important function of gaining alignment before moving forward on initiatives. Karen and Betty each mentioned how the FAC provides franchisees "voice" (KF, 4/20; BH, 8/2). Betty said, "the FAC helps us [franchisees] feel like we are involved. I know we bought a franchise for their [the corporation's] expertise, but it's a lot better because we have a voice and we are heard" (BH, 8/2).

The one contrasting view among the franchisee members came from Mitchell G., who had recently been reprimanded at a FAC meeting, by his peers, for testing a product without first gaining FAC approval. It is likely that Mitchell's perspective was skewed by this event. When asked about the roles of FAC, he said, "before I arrived, FAC was a puppet-board and did whatever corporate wanted." But, Mitchell also acknowledged, "that before today, we [the FAC], were a pretty congruent group." He also indicated that the current corporate president, Matt P., had been "good for a while" and "before today we were best friends" (MG, 9/26).

I also interviewed two regular FAC attendees, Dee B., the corporation's director of marketing, and Danny S., the advertising agency representative, who is also the owner of the agency. Both concurred that the FAC's role is input and decision-making (DB,

7/5; DS, 9/26). Danny compared the FAC to a board of directors. He explained that the “franchisees set policy and direction so management can go and execute” (DS, 9/26).

Based on observations of two in-person FAC meetings and four conference calls, the FAC is intimately involved in decision-making. In each meeting, formal voting occurred. Issues voted on ranged from switching to low-fat mayonnaise, to deciding on what product to promote, to whether a new product being tested should rollout nationally. In every case, the franchisor encouraged discussion amongst the franchisees. Observations from multiple meetings confirm that, while collegial, the franchisees do not hesitate to point out issues or suggest changes to promotions. In one example, the franchisee board members made significant changes to the color scheme and font sizes of a new menu board layout proposal from the corporation (Observation, 3/29).

### **Zen Masters**

The owner and franchisor representative of Zen Masters, Shelly, cited the NAC’s role as “a liaison between corporate and franchisees.” Elaborating on this role, Shelly indicated that NAC members can help corporate better understand franchisees’ needs around marketing, operations, finance and training. Shelly shared that she hopes the NAC will become more proactive in the future. She specifically mentioned the idea that NAC could form pre-approved committees to address such items as research and development, marketing and operations (SE, 4/27).

The NAC members all stressed communication as the critical role of the council. In describing this communication process, franchisees noted that the NAC serves as a means to share best practices, identify key issues, and provide a confidential way for their constituents to express grievances. Franchisee Tori C. opined that the council must learn

to listen to all franchisee voices in the system and create a process for addressing their concerns (TC, 9/29). Dusty D. echoed this thought when he said, “there are so many issues that come up, if corporate chased all of them, we would never get anything done. The board must help corporate prioritize” (DD, 10/4). When I probed on other roles, interviewees tended to repeat the idea that the NAC operates as a “sounding board” (JD, 9/19; DD, 10/4; TC, 9/19). The chairperson commented that the NAC was still in its “infant stage,” and needed to focus on being a strong liaison between the franchise community and corporate before tackling any new tasks (TG, 8/14).

For the first four months of their existence, the NAC board spent their time discussing what they should be doing, and how they should be communicating with the franchisees in their regions. More recently, as the board prepared for the corporation’s national convention, the franchisees began to reach out to their constituents via conference calls to amass issues and ideas percolating in their regions. Shelly took point to set up a dial-in number that each NAC member could use for their regions’ conference calls (Observation, 6/21). At the national convention, Shelly also arranged for each NAC member to hold one hour, round-table sessions with their constituents. These forums were used to update the franchisees about NAC activities and to gain further insights about franchisee concerns (Observation, 8/31). Further demonstrating the franchisor’s support for the NAC, Shelly mentioned the council three times during her various presentations at the convention, at one point thanking the NAC members publicly for their time on this “important council” (Observations, 9/26). Other signals that NAC members had the ear of corporate also occurred. Council members jointly presented awards with the franchisor at the celebration dinner the last night of the convention

(Observation, 9/28). This look of unity was requested by Shelly, the franchisor, during the August conference call. On this call, all franchisee NAC members readily agreed to co-present the awards with the franchisor (Observation, 8/31).

### **Euro Salon**

The role of the FAB for Euro Salon is tied directly to managing advertising. Steve, the current CEO of the corporation, indicated that FAB's role is to create the best possible advertising to drive customer visits. Steve also pointed out that FAB serves to reassure the franchisees that their marketing funds are being well spent (SC, 9/29). The president of FAB and a top tier franchisee, Adam, echoed that the role of the FAB is to provide advertising support, but he expanded the board's mission beyond what Steve offered. Adam positioned FAB more as a "watchdog." He noted that the FAB reviews vendor contracts, ensures all monies are spent legitimately, and keeps the franchisor at arms length. Adam suggested that the franchisor would like more control and that Steve the franchisor representative, specifically, had tried to have a bigger role in governing the board and influencing how the advertising funds were spent (GA, 8/22). Theresa, FAB's administrator, also mentioned that the current and prior franchisors have at times "tried to get their hands on FAB's money" (TN, 10/7).

Franchisee members of the FAB clearly delineated that the board collects and manages the advertising funds. Every person interviewed also noted the FAB serves a two-pronged compliance function. First, if franchisees do not contribute to FAB, then they face default letters and possible loss of their business. Second, FAB funds are not available to the franchisor. The term one franchisee used was "watch over the money" (JR, 10/3). David, a top-tier franchisee, who is also a member of FAB's audit committee,

suggested that “sometimes corporate tries to put the cart before the horse.” He continued, “That’s the problem with corporate controlled advertising, they [corporate] like to bleed money off into different things. What we have set up [FAB] is the best to prevent this” (DB, 10/31). In addition to a compliance function, the franchisees also described the decision-making role of the FAB. Examples they offered included, creating the marketing calendar, agreeing on promotional ideas, and approving the advertising materials for each promotional window. The board uses a formal voting process to secure approval for these initiatives.

### **Cross Case Comparison**

Each of these three boards emphasized different roles. Examining how boards prioritize their roles helps begin to illuminate the stakeholder relationships that operate. Portini’s FAC, for example, focused on a broad range of responsibilities, including decision-making, communicating, representing and mentoring. The FAC regularly voted on items, and its span of influence ranged from marketing, to operations, to new product development. Based on observations and interviewee comments, the partnership between the FAC franchisor and the FAC franchisee board members was strong. On calls and in meetings, the corporate president of Portini’s, Matt, continually asked for franchisee input on the ideas that the corporation, or other franchisees, brought forward. Frequently, it was Matt, as opposed to the chair, who took the time to specifically call out the names of franchisee members of the NAC and ask what they thought (Observation 3/29; 5/19; 6/10; 7/28; 9/26). This process took time and lengthened the meeting, but it also provided a high level of involvement.



In my interview with Matt, he specifically acknowledged that the board functioned as a way to keep corporate from climbing into their “ivory tower” (MP, 3/21). The relationship, based on how members defined their roles, and the fact that the corporation does not vote, suggested this board operates between the partnership and monitoring frames. Using the grid typology from my conceptual framework, this implied the board stakeholder relationship operated in the activist category. Interesting to note, the original owner, Joe, emphasized the board’s role of providing credibility for decisions. This focus on legitimizing, coupled with the partnering governance structure, could indicate that the board, under Joe’s leadership, might have been operating more as allies than activists.

Meanwhile, Zen Masters NAC focused almost exclusively on the communication function. Zen Masters board members referenced their role as communication liaison between franchisees and the parent company. In meetings, and on conference calls, the franchisor and franchisees brought forth topics, but votes were not taken. Instead, the Zen Masters board came to agreement on issues. The board clearly leaned towards the partnership frame. At this early stage of the relationship, however, the franchisor and franchisees were also active supporters of one another, as evidenced by the public display of unity at the convention. Based on these roles, the Zen Masters stakeholder relationship appeared to be one of allies.

Euro Salon’s FAB, on the other hand, stressed protection and monitoring. All of the interviewees, including the corporate CEO, pointed out that the FAB “watches over” and managed the marketing efforts; including what programs were advertised, how those programs were advertised, and where those programs were advertised. The

franchisees lack of trust for corporate was expressed numerous times. The political overtones were also evident when Steve, the franchisor, commented that no one on the board “gives ground easy.” This relationship appeared to be caught between the political and monitoring frames, suggesting the board was captured in an antagonistic relationship.

## **Forms of Governance**

### **Portini’s Council Context**

Portini’s FAC was comprised of five franchisees, each representing a geographic district. Each elected district member of the council had one vote. The FAC members were required to be in compliance with the terms of the franchise agreement, but there were no term limits for franchisee members. Many of the current members had served on the FAC for many years.

Elections were held every November for those districts in which the council member’s term was expiring. The corporation handled soliciting nominations from each district and provided every franchisee in that district with a bio about the candidates. The corporation managed the voting details and announced the winner of the election. The electoral procedures were meticulously detailed in the bylaws. The bylaws for the FAC spanned sixteen pages and specified the definition of every major term used in the document (P. bylaws).

In addition to the district representatives, the FAC included an elected chair and vice chair. The chair was elected by a majority of all district members and served a two-year term. The chair only voted in a lieu of a tie and the chief operations officer of the corporation held this office, during the period examined. The vice chair was also an

elected office, but only voted in lieu of the chair (P. bylaws). The husband of one of the FAC members served as the vice chair.

The bylaws of Portini's referred to the president as an "ex-officio" member of the FAC. Furthermore, the bylaws stated that the president was a non-voting member (P. bylaws). I asked the founder, Joe, about his rationale for this governance structure and he ruminated:

Right from the beginning, I knew we had to have elections. If you appoint members, they have no legitimacy. But, I did work behind the scenes to ensure those who were elected were the ones I wanted. They had to be good franchisees, not mediocre. Good operators are not yes people, they think about better ways to do things . . . I also refused to allow corporate to have a vote. This way it shifts the mentality away from us versus them. (JL, 9/26).

### **Zen Master's Council Context**

The NAC members were elected by franchisees in four defined geographic territories. Three of the regions had one council member. The fourth region, because it was the largest, had two representatives. The NAC also included one corporate member, in this case, Shelly. In addition to founder, Shelly served as the chief operations officer for the organization.

The document outlining the NAC's governance procedure was entitled "The Rules of the Council." While the NAC used this title instead of the more common term bylaws, the content mirrored the bylaw template offered in the IFA's book, *Advisory Councils: Effective Two Way Communications for a Franchise System*. The rules encompassed three pages and clearly indicated that the NAC members lacked formal voting powers. The language stated that the council had the "power of persuasion and information." Furthermore, the document described the council's role as a "sounding

board to help the franchisor gain a clear picture of the pros and cons of a particular idea” (ZM. Bylaws).

Requirements for franchisees to serve on the council included operating at least one unit for a minimum of one year, being in compliance with franchise agreements, and being in good standing with the corporation in terms of payments and operational metrics. The franchisee council members were elected for two years and could not serve longer than two terms. The bylaws indicated that elections would be held every December and that franchisees could nominate themselves, or another franchisee, if their region had an opening (ZM. Bylaws). Because all original council members were elected at the same time, the organization faced the possibility of complete council turnover in 2012. While the organization desired regions to hold staggered elections, no decisions had been made on how to make this change.

### **Euro Salon Council Context**

The FAB board was comprised of seven members. There were four top-tier franchisees who were elected by their peers based on geographic regions. The current four elected members also belonged to InFA. Two second-tier franchisee members were appointed by the four franchisee elected members. The franchisor, in this case the CEO, accounted for the seventh member of the FAB.

The FAB bylaws encompassed 24 pages and covered board offices, membership eligibility, election processes, meeting processes, voting procedures, and the requirement for an annual audit. In addition, a six-page FAB Policy Statement accompanied the bylaws. This document offered additional detail on the allocation of FAB contributions.

Terms of office were annual and staggered on the board. There was a three-year term limit for the top-tier franchisees. Each member had one vote and each vote was equal in weight. The corporate representative, the CEO of the parent firm, also voted. The CEO of the corporation could assign someone else from corporate to the board (ESS. Bylaws). In the past, the director of marketing was the FAB corporate representative.

Based on my six months of observation, both the corporate CEO, and director of advertising attended the monthly conference calls. The CEO of Euro Salon, Steve, casts the vote for the corporation. According to franchisee Adam G., the board extended the right to vote as a courtesy to the corporate office (AG, 3/30). Other franchisee board members interviewed, however, and the CEO himself, indicated that the corporation has a legitimate and equal vote (DN, 9/30; JR, 10/3; DB, 10/21; SC, 9/29). The bylaws also confirmed that, “the franchisor shall have the right to appoint one director to serve on the Board” (ESS. Bylaws). It is possible that Adam’s statement that the corporate office did not have the right to vote was based on his personal feelings toward the current franchisor.

### **Cross Case Comparison**

All three boards used geographic regions to define their electoral process. Each board had bylaws, but the two boards with the most longevity, Portini’s and Euro Salon, had the more extensive documents. Likewise, both of these boards had staggered terms of office and detailed voting procedures for elected members. Zen Masters did not use a formal voting system. Table 7 provides an overview of the governance processes of each case.

Table 7  
*Governance Processes by Case*

Case	Portini's	Zen Masters	Euro Salon
<b>Bylaws</b>	Yes	Yes	Yes
<b>Formal Voting</b>	Yes	No	Yes
<b>Corporate Votes</b>	No	No	Yes

### **The Boards' Procedures**

To understand how boards work in action, a series of four questions were posed. These questions addressed agenda development, board topics most often discussed, leadership, and norms for reaching agreement. In addition to interviewing the board members and attendees, behaviors were observed during conference calls and meetings. I used observation checklists at meetings to ascertain members' engagement in the proceedings. With respect to telephone conference calls, I monitored the amount of social exchanges occurring or the amount of silence before the calls began. Finally, I reviewed meeting documents, including agendas and minutes to confirm observations.

#### **Portini's**

**Agenda setting.** The process for setting the FAC agenda was detailed in Portini's bylaws. Issues were first raised at district meetings where the board members regularly met with their constituents. Matters voted upon at the district meetings became eligible for the FAC agenda if the issue received majority endorsement by the district members. When a district issue received a majority vote, the board member was then allowed to bring the issue to the attention of the full council. The FAC members must place the item on the FAC agenda at last ten days prior to the scheduled FAC meeting (P. bylaws). In addition to this formal process, however, board members would also bring up "district

issues” that were not formally placed on the agenda. The last agenda item listed for every call and meeting is termed “District Issues.”

**Topics covered.** My observations from meetings, conference calls and my review of agendas, confirmed that the FAC covered a broad array of topics impacting the franchise system. These topics spanned marketing, operations, and new product development. There were also business updates provided by the franchisor. The corporation took the lead on developing and reviewing the agenda items. Matt, the president, indicated that the franchisees “look for corporate to do the work, so it calls upon corporate to lead the meeting” (MP, 10/3).

**Leadership.** The bylaws indicated the chair was responsible for preparing the agenda, scheduling the meeting, and presiding as executive head of the NAC meetings (P. bylaws). In reality, however, the president, Matt, and his administrative assistant handled those responsibilities during my observations. Ken, the chair, candidly admitted that Matt wrote the first draft of the agenda (KM, 4/28). Matt’s administrative assistant forwarded the agenda to all members ten days in advance. In my six months of observations, this never failed to occur on time. One meeting was moved by one week, but the agenda still arrived 10 days prior.

Although Ken, the chair and member of the corporate staff, called the meetings to order and closed the meetings, during the time in between, Matt, the corporate president, controlled the meeting flow. When I asked franchisee FAC members who led the meetings, most franchisees clearly identified Ken, the chair, but then would quickly add that Matt was also involved (MA, 4/11; KF, 4/20; GH, 8/2). In speaking with an alternate board member, however, Bruce said, “Matt leads the meeting versus Ken. Matt’s the one

to call upon each district to give an update on their region and he keeps the meeting moving along. Ken only calls for the vote” (BM, 7/5). When interviewing Matt, he acknowledged that, “99% of the time” he leads the meeting. Matt went on to remark, however, that in a “perfect world it wouldn’t be that way.” He indicated that in prior years the FAC has had stronger chairs (MP, 10/3). I asked Matt to describe his own leadership style and he characterized himself as democratic versus autocratic in nature (MP, 3/21).

**Norms for decision-making.** When I inquired about the process the board used for making decisions, Matt, the corporate president, said that he “gives the group time to hash out stuff.” He went on to elaborate that, after a topic is discussed by the FAC, “someone makes a motion, there’s a second, and then we go around and each district votes” (MP, 10/3). Having witnessed 17 hours of board interaction, this process did occur. Matt, however, was typically the one to call for a motion. Out of 12 topics that were brought to a formal vote, Matt asked for the motion eight times, the chair three times, and the secretary once (Observations, 3/29; 5/19; 6/10; 7/28; 9/26). As noted earlier, Matt would frequently ask for members, by name, to share their opinions on the topics under discussion, indicating a partnering approach to decision-making. Furthermore, on twelve occasions he inquired if anyone had questions about the topic being discussed (Observations, 3/29; 5/19; 6/10; 7/28; 9/26).

In describing how agreement was reached, the FAC franchisee members shared similar overviews about the process. Marty A. said “the topic just gets beat up, with each of us going around the room giving our input and then we vote” (MA, 4/11). Karen commented, “Sometimes we have just done enough talking and it’s time to vote” (KF,



4/20). Betty and Ken in each mentioned that board members listen to research results to help them decide how to cast their votes (BH, 8/2; KM, 4/28). During my observations, I witnessed board members reviewing data, debating pros and cons, and making revisions to programs. Not every topic required a vote, but, of the twelve votes taken through formal motions, all passed unanimously.

When asked if there were issues FAC members didn't agree on, franchisees noted that test results typically provided data on any controversial topics. An example of a divisive subject, cited by three board members, was the hot sandwich line that required a capital equipment purchase (MA, 4/11; KM, 4/8; KF 4/20). The franchisor had to provide data from several test markets to provide enough evidence to win approval. I also personally witnessed controversy around moving to an automated customer loyalty program. This topic was discussed at all five meetings I attended (Observations, 3/29; 5/19; 6/10; 7/28; 9/26). One district was adamantly against the issue and was permitted to test a different version of the card. Karen, the FAC member for this district, shared the following:

I feel my district is unique. I have a good relationship with corporate. But my constituents look at me negatively because of that relationship. My district is anti-corporate. They don't agree with most of the ideas that come out of the council. (KF, 4/20).

Based on my observations, the district that Karen represented was regularly referred to as being outspoken critics of the corporation. In one instance, Matt P. described attending their district meeting with the comment that "full body armor would not have been enough, I got the shit kicked out of me by them" (MP, 9/26). While members of the NAC laughed at this reference, they all apparently understood the dynamics of the situation. Upon investigation, I learned that this district was the oldest in

the system, and most of the franchisees had been owners for twenty plus years. One of the most outspoken and critical franchisees in that district was the daughter of the owner. This franchisee, Susan, was mentioned on more than one occasion. Susan served on the board in prior years (BP, 8/29). Although her district had a tense relationship with corporate, the current district representative, Karen, did not display an adversarial stance towards the FAC, or the corporation.

### **Zen Masters**

**Agenda setting.** Initially, Shelly, the corporate representative for Zen Masters, established the formal agenda for the NAC. The agenda for the first conference call included a review of the goals of the council, member responsibilities, election of officers to the NAC, and future meeting plans (Email, 3/7). Likewise, for the second call, Shelly established and released the agenda, asking ahead of time if other council members had issues they would like included (Email, 3/30). For the next conference call, the franchisee chair did step-up and take point on sending out the agenda (Email, 4/25). Shelly, however, also set the agenda for the first in-person meeting (A. 5/20). At this in-person meeting the members identified the issue of training as the topic that they would focus on initially in conversations with their constituents. For the two subsequent conference calls the agendas were sent by Shelly E, and the following month by Travis G. (Email, 6/20; Email, 8/11). These agendas arrived anywhere from one to twenty days in advance. In an interview, Shelly expressed her frustration with the board when she said:

I don't think we have enough participation. Even the agenda doesn't suggest people are thinking forward, it has gotten better, but I wish there was more participation and more emails going on about topics they [franchisees] wanted to discuss. (SE, 10/3)

**Topics covered.** As noted earlier, training was the first topic identified by Zen Masters franchisee council members as a perceived issue in the system. The NAC members were concerned that franchisees were not using the corporate training program, and each member agreed to canvass their constituents on the reasons why. The findings from their investigations led to changes in the training materials. Two other prominent issues included the test results for a new product, and a change in the print vendor (Observations, 5/20; 6/20; 8/11).

Interviews with the NAC members confirmed that training was the most heavily discussed topic. Franchisee Tori C. laughingly responded, “we discuss training, and training and training.” She went on to say that the NAC needed to address more than training and post convention there were a number of items that surfaced from the field (TC, 9/29). Dusty D., mentioned marketing as a topic that has started to surface in the field (DD, 10/4).

Prior to the last NAC meeting, I asked Shelly if she expected any controversial subjects to surface. She cited an Internet marketing issue as one that could blow-up. The topic, however, was not mentioned at the board meeting before the convention. After the NAC meeting Shelly admitted to me that she was relieved the subject didn’t surface (SE, 9/18). The Internet topic did, however, arise with at the NAC franchisee board member roundtables held at convention (Observation, 9/19). I asked Pete, a franchisee NAC member, why the Internet topic didn’t come up during the board meeting held before convention. Pete said that it was because Shelly would have “taken it personally” (PE, 9/19). This comment, added further support to my observation that the franchisee board members have a close personal relationship with Shelly.

**Leadership.** Travis, the NAC chair, readily admitted that he had not been a strong leader. In an interview he said, “I should be contacting other members. I need to be whipping us into shape. We need to have structure reintroduced to the council again. It goes back to leadership and I’ve not done it effectively” (TG, 8/14). In an email exchange between Travis and the other members, three months into the life of the council, Travis volunteered to resign as chair (Email, 8/11). Tori C. and Shelly both responded to Travis’s email and encouraged him to retain his role. Tori wrote, “I have to respond to the comment of an ineffectual chair, I believe you are missing the point here. We are a team and it takes time, and prodding from all of us to effective. I appreciate all that you have done and do not wish you to step down” (TC, 8/11). Shelly’s followed-up with a note that also encouraged Travis to retain the chair role when she commented, “You are a good chairman. It just takes time, perseverance and a team effort” (SE, 8/11). The other board members, all men, did not comment.

Approximately one month after the possible resignation of the chair, I asked the board members who led the meetings. Tori said, “Shelly has a huge part in how it is run. Travis is starting to become more involved at this point” (TC, 9/29). Echoing this observation was Jay D., who commented, “I feel like corporate still runs the meeting. I would like to see the franchisees on the NAC run it versus corporate” (JD, 9/19). Dusty D. was more diplomatic and said “Shelly and Tom, particularly Shelly” (DD, 10/4).

Shelly, responding to this same question, noted that, “the chair should run the meeting. I think I ran the meeting for a while, but the chair has gotten better and is trying to run the meetings more now.” Shelly commented to me on two occasions that she wished Tom, the chair, would take more of a leadership role (SE, 5/20; 6/20). In my

journal, after the first NAC meeting, I had written, “Shelly, despite verbally saying she will turn the meeting over, struggles to release the reins of the meeting” (Journal, 3/29). At the second in person meeting in September, I did observe Shelly taking more of a backseat and Travis stepping forward to lead (Observation, 9/18).

**Norms for decision-making.** The process of asking members to formally “vote,” was not used by the Zen Masters NAC during my observations. Even the election of Travis as chair was not voted upon. Instead, Travis was nominated and Shelly asked if everyone “agreed” with having Travis chair, and everyone said yes (Observation, 3/9). Likewise, when determining that training would be the first issue to tackle, the group simply “agreed” and neither Shelly, nor the chair, went around the room to poll members (Observation, 3/9). Another topic that a franchisee member brought forward had to do with a pricing change. After discussing this topic, the NAC simply agreed not to make the change. No formal vote was taken (Observation, 3/9).

When asked how agreement was reached, four out of five franchisee members commented that the NAC members were aligned on most topics. Dusty D., laughed as he said, “maybe this is not a good thing, but we are all like-minded people” (DD, 10/4). Tori mirrored this view when she said that most of the time the group is in agreement and on the few occasions when they are not, the party who is less passionate about the issue, or has less information, concedes (TC 9/29). Only one franchisee, Jay D., mentioned that in the future he hoped that voting would occur (JD, 9/19). I believe the level of participation the franchisor, Shelly, had requested from the franchisees, with respect to decision-making, was deemed adequate by most franchisee members.

## **Euro Salon**

**Agenda setting.** Euro Salon's formal agendas were issued two days prior to the monthly conference calls, which were arranged by Theresa, the FAB administrator. The monthly calls occurred on the last Wednesday of every month. Members of the FAB, the advertising agency, the public relations agency and the corporate marketing director submitted items for the FAB agenda to Theresa. The agenda always included a section on the budget, as well as time for miscellaneous requests from external franchisees that involved marketing expenditures.

**Topics covered.** Topics the FAB tackled over the last five calls were concentrated on marketing efforts, formation of new committees, and new product offerings. The marketing discussions spanned the gamut of what to promote during a calendar window, to what public relations opportunities to pursue, to what new products to launch. The dialogue also covered how to address franchisees' advertising needs, how to improve the creative, and how to manage the advertising budget.

Both the advertising agency and public relations agency played significant roles on the FAB conference calls (Observations, 5/25; 7/27; 8/31; 9/28; 10/26). The representatives of these agencies brought forth the promotional ideas, opportunities, and advertising for the FAB to approve. I asked all interviewees if the franchisor brought issues forward. It was universally agreed that the FAB's process focused on the franchisor working with the agency, and the agency then presenting the recommendations. I noted that on two conference calls that the corporation's marketing representative, Rita, did offer short updates on topics (Observation 8/31; 10/26).

During the five conference calls I attended, three controversial subjects arose. The first occurred on the August call and involved the Internet. Steve, the franchisor CEO, made it clear that he considered the FAB's policy on reimbursable expenditures too narrow. In this verbal exchange, franchisee Adam countered with, "I don't know where FAB is holding people back from getting reimbursed, and we just say it has to be measureable." Jumping into this conversation, Theresa added that she wanted to cover this with the lawyer because a "world of hurt" could befall FAB if they were not careful. Sean, the advertising agency representative suggested a group be formed to "hammer out" the details. The president of FAB, franchisee Adam, and the corporate CEO went back and forth for a few minutes on who would be part of the team. Ultimately, they decided this new group would include John, Steve, Theresa, Rita and Sean (Observation, 8/31).

The second controversy arose over different perceptions in the system over how vendors can be paid. Rita indicated that there were those in the system who were unaware that a vendor could submit their invoice directly to the FAB. She planned to communicate this policy to the corporate stores. Theresa, the FAB administrator, appeared to take offense and argued that everyone was already aware of this policy. Rita continued to point out that the smaller markets did not know and that she was going to send an email. The verbal exchange described below highlights the tense tonality:

Rita: I will do it in my markets. I will review it with you Theresa, but I think it would be good for the entire system to be reminded.

[The silence for the next 45 seconds created unease]

Adam: Feedback?

Theresa: Rita, go ahead and write it up, I think it will cause confusion, but I can help and send it to those who I think don't know.

Rita: I am going to send it out to all franchisees in the corporate regions.

Theresa: Go ahead and send it to me so I can ensure we don't cause confusion.

Adam: Rita, are you happy?

Rita: I am. (Observation, 8/31)

The third controversy occurred over the agency commission. There was disagreement between the franchisees and the agency on whether the agency should be paid. After a few minutes of verbal exchanges, the franchisee president of FAB, Adam, offered the comment, "we have two or three other budget issues that we need to address, let's hold discussing this one until we see how the other stuff plays out" (Observation, 7/27). In this example, Adam, once again demonstrates his leadership.

**Leadership.** All interviewees, including Steve, the CEO of the franchise corporation, acknowledged that the president of Euro Salon's FAB, Adam (a franchisee), leads the meetings. The observations that I made during five conference calls confirmed that Adam was in charge. He took roll, moved the group through the agenda, requested motions when needed, and called upon each member to cast their vote once motions had been made and seconded. I asked Adam about how the FAB operated and he laughingly commented, "the president makes up his own rules," but then he turned serious and said that, "I always call for a vote if it involves spending money" AG, 8/22).

Adam pointed out that, recently, he introduced some changes to the FAB. He created the position of vice president and added two committees. John was elected unanimously as vice president, and Adam indicated that it was highly likely that John would be elected president when Adam's term expired. Due to a number of "fiascos" that had occurred at the board level, Adam recommended to the FAB that an advisory committee be formed. During the July conference call he explained that this smaller



group would work together to ensure timelines were met and contracts reviewed before items would be presented to the entire board. Adam appointed John, a second-tier franchisee, as the leader. Other members he appointed to this committee included Amy, also a second-tier franchisee, Theresa, the FAB administrator, and Sean, the advertising agency representative. The corporate representative, Rita, asked if she could also be on the committee and Adam agreed. While Adam did not seek a motion or a vote, he did ask if anyone had strong objections to forming this committee as a means to help solve their “ready, fire, aim” approach. Also, Adam instituted a new audit committee. Further, he appointed David and Nelson, both top-tier franchisees, to comprise this group. This committee was tasked with conducting an audit of the books by the end of the year (Observation, 7/27; GA 8/22). Interestingly, corporate was not invited to be on this committee, nor did they request a presence.

Consistently, Adam led a tight meeting and started the calls no more than one or two minutes past the official start time. He would point out which members were tardy. On three separate occasions the corporate representatives were late to the call. On the May call, Adam said, “Steve and Ruth [corporate representatives] are holding us up, we will give them a couple more minutes and then go” (Observation, 5/25). Likewise, when Sean, the advertising agency representative, came late to a call and apologized, Adam said “some of us are on a short timeline, let’s get started” (Observation 7/27). Though he does not like tardy attendance, it is frequently Adam who breaks the silence or tension with a humorous quip. After hearing that \$14 was left in the budget, Steve, the CEO, asked a question about the budget. Adam quickly followed-up with a quip, and told Steve he couldn’t have the \$14 (Observation 5/25).

**Norms for decision-making.** All Euro Salon FAB members indicated that the governance process relied on the concept of “majority rules.” Nelson N. commented that the FAB discusses the topic and tries to reach “a compromise to make everyone happy.” Nelson said that there were also times when the “people in disagreement try and wear the other side down” (DN, 9/30). David B., another franchisee board member said that decisions come about through compromise (DB, 10/21). One of the second-tier franchisees, John R., offered the perspective that there is a healthy amount of debate, but indicated that “if people not willing to budge, then majority rules” (JR, 10/3). When I posed the question of how decisions are made to Steve, the franchisor, he confirmed that compromise is attempted, but ultimately it comes down to majority rules.

Not every issue requires a motion to be made. There have even been occasions when Adam has asked Theresa if a topic needs to be brought to a vote (8/31; 9/28). Across the five conference calls I attended, motions were made on ten subjects. There was unanimous agreement on all of the matters brought to a vote.

In an interview with Sean, the advertising agency representative, he commented that the committee is prone to asking for information and if they don’t have enough data they postpone decisions. He also indicated that it is a “thorn in corporate’s side” that his agency, as a vendor, has such a high level of respect from the franchisee members. The tightrope that the agency walks, between corporate and the franchisee board members, became evident during the October conference call. While reviewing photography, the agency and Rita had selected different shots. One of the agency employees who worked for Sean commented, “We want to ensure Rita is not unhappy, she has been instrumental in the fine-tuning process.” Rita responded that she thought both photos were good and

that, “I won't die on a sword for the shot I liked, they are both good.” The committee agreed to let the agency decide on the photos (Observation, 10/26).

### **Cross Case Comparison**

**Preparing the agenda.** Interviewees and observations revealed that all three boards issued formal agendas prior to conference calls and meetings. Each board was inclusive in their approach to agenda setting, with all members, and even regular attendees, having the chance to add topics to the itinerary. Who developed the agenda, on the other hand, varied between the boards.

In Poritini's case, the corporation was currently taking the lead on establishing the agenda for the FAC. In the past, however, the agenda task had been handled by the elected chair of the board. The current corporate president, Matt, was the leader at the meetings and on calls. Franchisees, however, had the opportunity at every meeting to bring up subjects from the field. The franchisor, Matt, also solicited input throughout the meetings displaying a partnership philosophy.

Zen Masters was in a similar situation with respect to the franchisor having to engage heavily. In this case, the franchisee chair of the NAC had not stepped up to the leadership role. On five occasions, Shelly, the franchisor, stepped in to issue the agenda prior to the calls and meetings. Likewise, Shelly took a more active role in leading the meeting. On the last conference call, Shelly specifically turned the meeting over to Travis, which suggested the dynamics of the meeting were changing.

Euro Salon was not plagued by a leadership issue. Adam G., a long standing franchisee and the president of FAB, kept the calls moving and navigated the politics

with the corporation. There was also a FAB administrator whose job was to solicit agenda items and issue the agenda prior to the conference calls.

**What's on the agenda.** The three boards varied in where they focused their time. Euro Salon was primarily dedicated to marketing issues. Portini's FAC also focused heavily on marketing. However, Portini's board encompassed a wide array of other topics, including operational issues, business overviews, communication updates from the field, budget reviews, and new product development initiatives. In contrast, Zen Masters NAC emphasized training, and board development efforts; to a lesser extent, the board addressed communication from the field, meeting plans and marketing efforts. Given Zen Masters was a relatively new board, the focus on board development was not surprising. See Table 8 for a specific breakdown of agenda items covered on the calls and in meetings.

Table 8  
*Agenda Items by Case*

<b>Agenda Items</b>	<b>Portini's</b>	<b>Zen Masters</b>	<b>Euro Salon</b>
Marketing	15	4	20
Budget	5		4
Meeting Planning	5	5	2
Business Update; Sales Reviews; Committee Reports	8	-	2
Elections & Other Board Processes	1	7	-
Training & Operations	9	8	-
Legal Issues	-	-	3
Communication with Constituents in the Field	7	5	
Review of Prior Meeting Minutes	5	-	-
New Products	5	-	-
Miscellaneous	1	4	5
<b>TOTAL</b>	<b>61</b>	<b>33</b>	<b>36</b>

**Leadership.** The franchisors on the Portini's and Zen Master's boards each played a prominent leadership role. The president of Portini's, Matt, openly acknowledged that he led the meeting, but shared that, "in a perfect world, the elected vice chair would take that accountability" (MP, 10/3). At the first in-person board meeting I attended, the conference room held a "U" shaped table. Both Ken (chair), and the corporate president, Matt, chose the two seats in the middle section that would be considered the "leader" chairs. During the second in-person meeting the room was in the same shape. In this instance, however, Ken and the vice chair (Gordon) took the two leader chairs, and Matt sat on one side of the room with other franchisee board members. Interesting to note, however, Matt still led the meeting, simply not from the leader's typical chair.

During the calls and meetings, Matt, the corporate president, moved matters along, but called upon franchisees to provide input. He did not shy away from taking a stand and, at times, the franchisees voted in a different direction than corporate's recommendation. On one call, a franchisee brought forward a new vegetarian sandwich to test. The product had already been tested in Phoenix. Matt shared results that showed the product had not met the test market hurdles. He commented, "I'm of the opinion that this would be a mistake to retest based on Phoenix." The franchisees, however, wanted to give the market the opportunity to retest the product, and the veggie sandwich was approved. The topic didn't appear to cause any undue rancor between Matt and the franchisees and the meeting simply progressed (Observation, May 19). This behavior adds further evidence that this is an activist stakeholder board.

As noted earlier, the franchisor for Zen Masters, Shelly, also played a prominent role on the NAC. In one of our informal conversations, Shelly asked my opinion as to whether she was dominating the meeting. I was in an awkward position, but shared my thought that someone had to step in to take the reins when called upon (Journal entry, 7/27).

During both in-person board meetings, neither Shelly, nor the chair, Travis, sat in the leaders' chairs, both sat on one side of the table. On multiple occasions, and in front of the board, Travis demeaned his handling of the chair position. As noted earlier, the franchisor and one franchisee continued to support Travis and requested that he stay in the role. At the last meeting in September, Shelly still played a central role, but Travis moved the meeting along during the session by inserting the phrase, "what's next?" Travis also kept the meeting on schedule with respect to timelines for agenda items. The fact that the franchisor attempted to give the franchisees more control of the NAC suggested a high level of trust in the relationship.

On the other end of the spectrum, Euro Salon's board was led by a franchisee, Adam, who served as president of FAB. There was no mistaking that Adam was the leader, and he kept the meetings on track. According to all interviewees there is a strained relationship between the franchisees on FAB and the franchisor's corporate representative, Steve. When I called in for the FAB conferences, there was palpable tension between corporate and the franchisee board members. While waiting for people to join the call, the members announced themselves. This was followed by an awkward silence as everyone waited for Adam or others to beep in. The silence, while only a few minutes, seemed to stretch on for eternity (Observations, 5/25; 7/27, 8/31; 9/25; 10/26).

In another example of a fractured relationship, on the last conference call, Adam commented at 3:31 pm that it was a minute past the start time, and, if no one objected, we wouldn't wait for corporate. No one objected, so the meeting commenced. Two minutes later, a beep was heard and corporate had joined the call (Observation, 10/26). Even the CEO, Steve, commented that with FAB "sometimes we are cordial and get a lot done and other times we agree to disagree." Steve elaborated that neither the franchisees, nor corporate, "gives ground easy" (SC, 9/29).

During the August call, another example of the strained relationship transpired. A topic arose regarding default payments, and Adam, the president of FAB and a franchisee, suggested that a smaller group would discuss the matter offline and come to a recommendation. Steve the CEO of the corporation asked, "Adam, do you allow others to listen in?" Adam responded, "Do you want to?" Steve offered, that on this particular topic, the franchisor had a perspective they wanted heard. This issue was apparently such a hot subject that a new "subcommittee" was immediately formed. Adam and Steve went back and forth to determine who from the FAB community would be on this new committee (Observation, 8/31). The exchange between Steve and Adam was cordial, but it was apparent that neither one was compromising on their position. This provided further support for the assessment that this board is operating in an antagonistic stakeholder relationship.

### **Relations Among Board Members**

While behavior can be telling, attitudes are also critical in understanding stakeholder relationships. What members think about one another and corporate, how they assess the board's performance, how they define the benefits for participating, and

how they characterize the climate of the meetings, provides relevant avenues of inquiry. I used the expressed attitudes of the interviewees, as well as the observed behaviors to help identify the type of board relationships that were operating.

### **Portini's**

**What I think of you.** The most junior member of Portini's FAC, Karen, acknowledged that there would always be differences between franchisees and franchisors that could not be resolved. Karen went on to say, "as franchisees, we have to understand there are rules we have to follow and that's what we signed up for" (KF, 4/20). Franchisees Betty and Gordon characterized the current FAC board as operating effectively because the group was familiar with one another. They alluded to some frustration in the past with the board and suggested that when the original owner, Joe, attended "he would get us off track" (BH, 8/2; GH, 8/2).

Marty A., a long-standing franchisee member, commented that, in the past, there were some opinionated franchisees that were more concerned about their own personal situation as opposed to the betterment of the chain. He indicated that Matt, as president, has created calmer waters with things "flowing more smoothly." Similar to Betty, Marty A., noted that the original owner, Joe, liked to "stir the pot" (MA, 4/11).

Matt P., the corporate president, suggested the board operated with a sense of calm, but was always ready to provide honest communication. Matt, as well as other franchisee members, indicated that members disagree on issues, but after discussion they arrive at a mutually agreed upon position (MP, 3/21). I observed an air of good-natured ribbing on all of the calls and the in-person meetings and board dinners. Franchisees and the franchisor would make jokes, and laugh with one another.



One example of the humor used, however, served to remind everyone of the differences between franchisees and franchisor. During five board meetings, I observed the term “royalties” was mentioned seven times (Observation, 3/29; 5/19; 6/10; 7/28; 9/26). The franchisee royalty is a pre-determined fee that is paid monthly to the franchisor for the right to use the brand name. Royalties is a topic that divides franchisees and franchisors. Franchisors benefit by adding new units in a market because this increases the royalties received. Meanwhile, franchisees may suffer because further build-out of units increases the number of competitors. Matt or franchisee board members used the term in facetious quips to note the franchisor benefits from royalties that the franchisees’ pay. At the March meeting when the corporate president, Matt, was discussing new store openings he said “it’s all about the royalties.” When no one laughed he added, “you know I’m joking” (Observation, 3/29).

**Board assessment.** Adjectives used by the Portini’s franchisee board members to describe the FAC ranged from seasoned pros, to interacting board members, to passionate top class operators. The advertising agency representative referred to the board as dynamic and proactive, but wished they were a bit more innovative. Because of their lack of innovation, Danny S., gave the board a grade of B (DS, 9/26). The majority of franchisee board members graded the board an A. Mitchell G., the one disgruntled franchisee, refused to grade the board because he commented that he would only be grading himself (MG, 9/26).

The corporate president, Matt P., gave the board a B. Matt commented, “I think they have been a steadying force through the last two to three years, but we have not had any home runs.” Moreover, he suggested the FAC needed to continue to improve

leadership capabilities and communications with franchisees. Matt offered his opinion that the current board members were proud to be part of a group that directs and manages the concept. He also acknowledged that there were franchisees in the system who viewed corporate as the “bad guy.” Matt elaborated:

While FAC members are well thought of and looked up to by franchisees in their districts, sometimes the decisions they make as board members are not popular. Some of their votes cause issues for them [FAC franchisee members] and they are not always thought of in the warmest of terms. (MP, 10/3)

**Benefits of membership.** When interviewing the owner, Joe, he shared that the FAC members were paid \$100 a day for attending meetings, plus travel expenses. Joe indicated that because he can’t pay them anymore, he “wines and dines” them. Joe suggested the social aspect of the board was important because it allowed him to build camaraderie (JL, 9/26). Taking a different position, the current president, Matt P., suggested the benefit for being on FAC had tangible and intangible benefits. The intangible benefit he described as the “feel good stuff,” which revolved around being seen as a leader. Matt pointed to the tangible benefits of being part of the decision-making process on a larger scale than just one store, and being exposed to a greater amount of industry knowledge (MP, 10/3).

All five franchisee FAB members’ comments, with respect to the benefits of being on the FAB, paralleled those of Joe and Matt. Franchisees, including Mitchell G., indicated that it is a chance to be involved and make changes on a larger scale (MG, 9/26). Marty A. also commented that, as a FAB member, we help build a “tighter knit community” (MA, 4/11). Karen offered a similar view when she said, “you have the opportunity to provide input and network with other districts” (KF, 4/20). Betty used the more colloquial phrase, “I get to put my two cents in” (BH, 9/26).

**The atmosphere.** I asked interviewees to describe the climate and dynamics in Portini's FAC meetings and on the conference calls. I then compared their assessments with my own observations. The Portini's franchisee FAC members characterized the current board meetings as being collaborative, while still engaged in healthy debate. Karen and Marty both used the same descriptive phrase, that things on the FAC "flow smoothly" (KF, 4/20; MA, 4/11). Marty attributed this peaceful climate to the president's approach to overseeing the FAC and the current makeup of the board. Betty offered validation of Marty's views. She commented that prior boards had "growing pains" and were very corporate dominated. Betty followed this observation by saying that Matt, the current corporate president, had done an "awesome job" (BH, 8/2).

The president of Portini's used the term "calm" to describe the climate. Matt said that the meetings were not high-pressure, nor did they involve a lot of crises. He acknowledged that some personalities were stronger than others, but suggested this was common in any group (MP, 10/3). Observations of two in-person meetings and three conference calls supported the assessments made by both the franchisees and franchisor. The meetings and calls have been collegial, good spirited and even keeled for the most part (Observations 3/29; 5/19; 6/10; 7/28; 9/26). Certain franchisees do not hesitate, however, to offer their opinion, but it is done in a cooperative manner.

The one exception to the calm experienced at meetings and on calls arose at the September session held the day before the convention. The meeting followed similar patterns and was concluding on a jovial note as the franchisees decided to "name" a product after Ken M. However, when each franchisee member discussed the District issues, the tonality of the meeting shifted from good spirited to politically charged.

Mitchell G., the last to take his turn, shared that a “franchisee” had tested a new product without approval from the FAC. This franchisee now wanted permission to keep the product in his restaurant. Matt P., the president, remained silent. Meanwhile, the franchisee FAC members quickly began to condemn this errant franchisee and indicated that he or she should immediately stop selling the product. As the franchisee FAC members began to discuss who the “culprit” was, Mitchell G. finally admitted that he was the franchisee. The room grew silent and no one would look directly at him. I felt the tension in the room escalate. Mitchell G. quickly became defensive and indicated he had “already taken the heat from corporate.” At this point, it was apparent that Matt P. knew about the issue, but had not communicated it to anyone. When I later asked Matt P. about this, he commented, “he [Mitchell G.] knew he was wrong. He asked if he could bring it up at NAC and I said yes, during the district issues. Matt added:

He [Mitchell G.] made a huge mistake in how he brought it up, with his ‘I have a franchisee who did this’....this is what pissed people off. Up until that point they were calm, but when they realized it was him, and rather than him saying it upfront, they [other FAC members] were pissed off, and I don’t blame them. He was trying to pull the wool over their eyes. They [the rest of the council] did what I hoped they would have done, they slapped his hand. The next day and a half he didn’t speak to anyone or show up at the meetings. Finally, by Wednesday night he attended the awards dinner and he spoke to a few people. (MP, 10/3)

Matt characterized the closure of the September meeting as an atypical situation. When I asked about how the corporation operated on other sensitive subjects, Matt said that there were enough strong personalities on the board that, if corporate tried to use a “top down process,” it would no doubt cause a good deal of fighting. However, he went on to say that this was not the type of process corporate wanted. He commented, “We [corporate] want a level playing field. We all have the same interests and we all want to find common ground on how to execute” (MP, 10/3).

## **Zen Masters**

**What I think of you.** The board members from Zen Masters offered solid praise for one another and for the franchisor. Pete commented, “We are all team players and want to see it work versus only worrying about what is good for me” (PE, 9/19). All of the franchisees commented that the franchisor is receptive and accessible. Franchisee Dusty D. also reported that being part of the NAC has helped him form new relationships (DD, 10/4). Even Jay D., the most outspoken of the NAC members, reported that there were no tensions in the relationship so far (JD, 9/19).

The NAC members also appeared to be trying to protect corporate by being advocates. During a June conference call, one NAC member shared with Shelly a complaint from a franchisee. Shelly, the corporate CEO wanted guidance on how to address the issue because she believed corporate had already done what they could. The other NAC members, hearing her explanation, quickly came to her defense. Travis, the franchisee chair, even suggested that the role of the NAC was to help her “head off train wrecks” by alerting Shelly when franchisees show unrest (Observation, 6/21).

**Board assessment.** Adjectives used by the Zen Masters franchisee NAC members to describe the board ranged from, knowledgeable, respectful and forward thinking, to proactive, serious and engaged. Shelly commented that the board was dynamic and filled with valuable leaders. She indicated that the relationship between the board and corporate was very good, and that having the council had “helped tremendously.” Shelly elaborated, “I feel I can call any of them [NAC members] and discuss individual issues and have a professional conversation and get some sort of conclusion” (SE, 10/3).

In assessing their NAC's performance, the franchisee members offered similar responses. Tori would grade the board's performance with a B-. She indicated that the council was still in the "baby stage" and "none of us have devoted enough time to it" (TC, 9/29). Likewise, the chairperson, Travis, offered a grade of B- (TG, 9/23). Dusty D., gave the board a B+, but admitted that, being a new team, "we are still figuring out what we need to do" (DD, 10/4). Pete indicated that he thought the board started out as a C, but had progressed towards a B. He increased the grade based on the board's recent efforts to engage in more dialogue with their constituents (PE, 9/19). Shelly, concurred with Pete, and commented that she thought the board deserved a C to start with, but was now a B. Her improved assessment of the board was also based on the NAC members reaching out to the franchisees they represented (SE, 10/3).

**Benefits from membership.** Shelly suggested that franchisees benefit from being members of the NAC because it enabled them to be on the forefront of corporate initiatives. She also commented that it was considered an honor to be elected to the council, and it affirmed the franchisees status in the community (SE, 10/3). When asked what benefits there were for serving on the Zen Masters NAC, all of the franchisees mentioned the value of being ahead on the knowledge curve. Pete even shared Shelly's sentiment regarding stature. He said that being a member of NAC provided "us the chance to lead" and to be seen as "role models" in the franchise community (PE, 9/19). In addition to giving them access to information early, four of the five franchisees mentioned that being part of the board helped them develop a closer relationship with corporate. One franchisee even referred to this as being part of the "inner circle" (DD, 10/4).

**The atmosphere.** The Zen Masters NAC members described the climate as open, cooperative and respectful. Dusty D., however, laughingly commented that at times we go down roads less travelled . . . and when this occurs, things tend to “drag on” (DD, 10/4). Mirroring this statement, the chairperson, Travis G., offered that due to his own lack of leadership there has been some “disarray” in how the meetings were conducted. Tom furthered his thoughts by suggesting that because the board was “new” things have not yet solidified.

From the franchisor’s vantage point, there had not been enough participation. Shelly observed that while participation was improving, she would like more franchisee members to vocalize their thoughts. Shelly followed up this observation with the comment, “I want someone else to take control. I want this to be their council not mine. It was set up for them.” According to Shelly there were one or two people setting the tone for the NAC and more involvement from everyone was needed. On the June conference call Shelly brought her concern forward and told the members, “I am feeling a little frustrated. If I don’t take the lead on agenda items I don’t get input. This was set up for you guys.” Travis, the chair, immediately stepped in and took accountability (TG, 9/23). This attitude, revealed by Shelly, that the board was “theirs” promoted a partnership and supporters club frame. Shelly was viewing the board in terms of what they could bring to the organization, such as legitimacy, influence and expertise to further the aims of the organization.

## **Euro Salon**

**What I think of you.** The phrase “we peacefully co-exist” was how the franchisee president of Euro Salon’s FAB, Adam, described the relationship with the

franchisor representatives on the board. He went on to say, “my main job as president of FAB is keeping Steve [the corporate CEO] at arm’s length.” According to Adam, the franchisor wanted to obtain control of the advertising funds. This has meant that corporate has taken a more active role in FAB and it is one of the reasons Steve ran for President of the FAB during the last election (AG, 8/22). Theresa, the FAB administrator, echoed this position, and franchisee David B. was even blunter, with his statement, “The corporate people are looking for every way they can to put their hands in the franchisees pockets.” He went on to say:

From what I hear from the guys who have come in and out of FAB a time or two before, there has never been an issue to the same degree that there has been with the current CEO . . . while the thing has changed hands several times, it has never been so negative with this corporate versus franchisee mentality. (DB, 10/21).

Based on my observations of the verbal exchanges between Rita, the corporate marketing director, and Theresa, FAB’s administrator, the two women’s relationship appeared strained. On those occasions, when Rita was ready to present to FAB, she would ask Theresa if she had forwarded the information to the group. In each instance the data had not been sent. In one situation Theresa said to Rita “I thought you sent it out.” In the other situations, Theresa indicated to Rita that she was busy working and had not seen the email. I believe the implication was being made that the materials had arrived too close to the time of the conference call (Observation, 10/26). Also, when Theresa discussed some adjustments to the in-person meeting agenda for the June FAB session, Rita voiced her displeasure over time changes for the meeting agenda, complaining twice in loud clipped tones “I already booked my flight” (Observation, 5/25).



A negative relationship defined the corporate versus franchisee board members. In contrast, Theresa, the FAB franchisee members, and the advertising agency representative (Sean), all reported a solid and well respected relationship between top-tier and second-tier franchisees on the board. The election of John, a second-tier franchisee, lent credence to this level of respect. In addition, as noted earlier, John was appointed to lead the new subcommittee on marketing.

Steve, the CEO of the corporation, offered a different perspective. He stated that he believed the relationship between the franchisees and corporate FAB members was above average and greatly improved from the recent past. Steve also commented that the “franchisee council members” don’t always agree with one another (SC, 9/29). This statement contrasted with every other interview, which suggested there was little to no debate between the franchisees on FAB. Based on personal observation from five conference calls, I have not witnessed any disagreements between any of the franchisee board members with one another (Observations, 5/25; 7/27; 8/31; 9/28; 10/26). On the other hand, I have experienced political tension between the franchisees and corporate.

**Board assessment.** Although the adjectives differed, the viewpoints expressed by Euro Salon’s FAB members, Theresa and Sean, all shared a common theme, conservatism. The franchisee board members used words such as, cautious, deliberate, fair and honest to describe the board. Meanwhile, Theresa offered the word “consistent” and Sean said the board was “professional, collaborative and at times combative.” Steve, the franchisor, said that FAB was serious, not every creative and prefers to do things the way they have always done them in the past.

The franchisee members of the board consistently graded FAB's performance as an A or B. David gave the board an A- or B+, but this was only because of the litigation the board experienced with a model from an ad campaign. Had it not been for that issue, the board would have scored a "solid A" by David (DB, 10/21). Meanwhile, Theresa, the FAB administrator, thought the board deserved an A because of how they handled the legal dispute (TN, 10/7). Nelson offered up an A, while John rated the board's performance a B. John commented, "we have done some good things, but the one thing we have struggled with is timelines" (DN, 9/30; JR, 10/3). John went on to elaborate, "too often we are getting materials too close to the promotion and this means the franchisees can't plan properly" (JR, 10/3). Meanwhile, the advertising agency representative, Sean O., laughingly said, "that's a hard question to answer right now because there is threatened litigation between the two of us that clouds my judgment. Putting this aside, however, I would say a B" (SO, 10/17).

In stark contrast, the corporate CEO, Steve, indicated he would evaluate FAB's performance as a C. Steve commented that if the advertising FAB was "approving" had been working, the organization would not have experienced such a high number of closures over the past year. He went on to say that he blamed the agency, which has been in place for 25 years. Steve noted, "I've advocated agency reviews for years, but when it happens it is a whitewash. We need fresh blood, Sean is good, but not that good." In continuing his assessment, Steve also commented that the governance of the FAB resists change and that the committees get in the way (SC, 9/29).

**Benefits of membership.** Obligation was the sentiment that several Euro Salon franchisee board members used to describe why they serve on FAB. Nelson laughingly

responded to the question about benefits of membership, with the comment, “there are none.” He went on to say “I felt like it was my turn . . . everyone needs to participate and be involved” (DN, 9/30). John echoed this viewpoint by commenting that, “It’s a duty thing, FAB is there to protect franchisees and their money, so there is an obligation to serve” (JR, 10/3). David added that being on the FAB requires a major donation of time, but that the “benefit is that we have a strong national fund that is administered fairly, and it is totally outside of corporate control” (DB, 10/21).

Steve, the franchisor CEO, shared the franchisees assessment regarding the benefit of serving on FAB when he commented, “There are no benefits. It’s a job you have to do for everyone else . . . You are serving your system with your sweat, equity and time.” Steve noted that while travel is reimbursed, the two meetings FAB has are tacked on to other meetings that the FAB members would need to attend anyway (SC, 9/29). The two external members of FAB shared a similar philosophy on the benefits. Theresa commented that the board members have a “deciding role in how the advertising is handled, produced and the direction it is going and this carries a lot of weight.” Likewise Sean O., pointed the FAB members play a deciding role on the advertising and they also know what’s coming down the pike (TN, 10/7; SO, 10/17).

**Atmosphere.** When asked to describe the climate, the franchisee board members of Euro Salon pointed out that much of the time it can be congenial, casual, and even melancholy. They were, however, quick to point out that tempers can flair and the atmosphere can become heated. David B., one of the top-tier franchisees noted that everyone is “quick to take a position.” He commented that one of the other members, Terry B., was a “fighter and will put the gloves on and start boxing with corporate.”

Interesting to note, Terry B. has been absent from four of the last five conference calls (DB, 10/21). John indicated that the people on the board have known one another for a long time, and because they are comfortable with each other it helps the dynamics. He added, however, that tension existed and it was mainly between the franchisees and the home office (JR, 10/3). Nelson, meanwhile, was reluctant to answer the question. After laughing and taking a long pause, he said, “I don’t know if I want to comment specifically, but there is some friction between corporate and the board” (DN, 9/30). Steve C, the franchisor, commented that it depended on the topic, but “at times the atmosphere is cordial and we get a lot done, but sometimes it can become very negative” (SC, 9/29).

Theresa, the FAB administrator, said that in comparison to past boards, the current board was reasonable. She attributed this to Adam’s leadership and ability to mediate with the franchisor. Theresa commented that she thinks the current franchisor views the FAB as a “necessary evil.” When I asked her to explain, Theresa said that if corporate tries to eliminate the FAB, they know that the franchisees would “rebel and file a lawsuit.” She went on to say that the tension between corporate and the franchisees has always been there, because “corporate would like to use FAB’s money to do things their way” (TN, 10/7). The atmosphere of the board has underlying tension based on lack of trust and respect between the franchisees and franchisor. The relationship functions, however, due to a strong leader who navigates the political environment.

### **Cross Case Comparison**

**What I think of you.** Zen Masters had a positive relationship between the franchisees and the franchisor. Franchisees, for the most part, indicated confidence in the

franchisor and a high level of trust that issues brought forward, would be resolved. Only one franchisee expressed some mild reservation. Jay D. offered the thought that what happens in the coming months would be critical. Shelly, the franchisor, also indicated optimism about the NAC and confidence that the chair was going to take a more active role in the future. The high level of support and positive reinforcement between franchisor and franchisees was evident from interviews, convention speeches, and observed behaviors. Franchisee board member also appeared to be forging relationships with one another. Along with the partnership demonstrated, there appeared to be willingness among the NAC members to carry the torch for the franchisor. I believe the high level of partnership, coupled with a supporters club mindset, suggested that the Zen Masters NAC stakeholder relationship was one of allies.

Similar to Zen Masters, Portini's FAC, shared a partnership frame of reference. Based on the intense level of input the franchisees provided to the corporation, it appeared that they were working towards the same brand-building goal. I excluded the one franchisee, Mitchell G., who had his hand slapped by the FAC at the last meeting. I believe this event was isolated and his comments tainted by his personal feelings of being scolded. The evening of the board award dinner, I noted three board members chatting with Mitchell G., and personally heard Karen giving him a pep talk.

The Portini's franchisor took the time to build a social aspect into the relationship. The NAC board met for dinner prior to the in-person meetings. I attended two of these dinners and noted a friendly atmosphere in my journal entries (Journal, 3/29; 9/25). The first event was held at the president's house after the board meeting. Because the franchisees did not have spouses in attendance (excluding Betty and Gordon) the group

was small and we all sat together. Talk centered on families, sporting events, and upcoming vacations (Observation, 3/29). The second dinner, held the night before the NAC meeting, and just prior to the start of convention was at a restaurant with a private dining room. The room contained two large tables because spouses were included. In addition to the president attending, the original owner, Joe also came to the dinner with his date. I found the choice of seats taken by the group interesting. At one table it was primarily the corporate people with only two franchisees. The other table was exclusively franchisees, their spouses and I. Candidly, I was surprised the president and owner didn't split up between tables (Observation, 9/25). This, however, further supported the underlying knowledge that franchisees and franchisors have differences.

My interviews, along with my observations, suggested that this board had a partnering attitude. The group was cognizant, however, that the franchisor-franchisee relationship won't always be aligned, as evidenced by the "royalty" humor. In the case of Portini's board, since the franchisor does not vote, the franchisee board members have an active role in helping ensure compliance to the rules. This was evident in the board members reaction to Mitchell G. not following NAC protocol when he tested a new product. One franchisee, Gordon, told Mitchell, "I think it sounds like a good sandwich, but we [the FAC] should be the ones to agree on it first." I believe the board, serving to monitor the franchisees, as well as the franchisor, indicated this stakeholder relationship was one of activists.

Euro Salon shared a monitoring frame with Portini's, but instead of partnership, power and politics dominated. Based on interviews and observations during conference calls, this board had an "us versus them" attitude. The franchisees and the FAB

administrator were, for the most part, outspoken in their criticism of Steve, the current CEO. Theresa commented that the franchisor ignored the franchisees until they were “pushed to the wall” (TN, 10/7). Two of the franchisees shared with me the “thorny issue” that was causing some of the friction. The franchisor was apparently buying back regions from distressed franchisees. As they did so, the franchisee FAB board members wanted corporate to abide by the rules for payment into the FAB fund. The franchisor had chosen to interpret the rules differently. Because there was a significant amount of money involved the issue had escalated. The board members I spoke with said they had almost settled the issue after a face-to-face meeting in Chicago with Steve, the franchisor. However, Steve involved the corporate attorney at the last minute, and as one franchisee phrased it “The lawyer goobered it up” and the deal fell through (DB, 10/21; AG, 8/22). The issue remained unresolved and continued to cause tension between the franchisee board members and the corporate board members of FAB. The FAB functioned in the antagonistic stakeholder relationship, caught between the monitoring and political frames.

**Board assessment.** In two cases, the franchisors graded the performance of the boards more stringently than did the franchisee board members. In the case of Portini’s and Euro Salon, the franchisees tended to assess their board’s performance in the A range. The respective franchisors, however, gave the boards lower scores. While the Portini’s franchisor offered a B, the franchisor of Euro Salon judged the board a C. Zen Masters franchisees and franchisor were more aligned. This was not surprising, since the Zen Masters board was relatively young and experiencing growing pains.

**Benefits of membership.** The franchisees in the three cases shared little in common with regard to the perceived benefits of being a board member. Euro Salon franchisees served out of duty. Portini's franchisees viewed being on the board as an opportunity to have input in the direction of the company. Zen Master's franchisees, on the other hand, considered board membership as a means to obtain information first, and to be perceived as leaders in the franchise community.

**Atmosphere.** All three boards functioned in a cordial manner. In my six months of observing the behaviors of meetings and conference calls, there were debates on topics, but no shouting matches erupted. All of the meetings were relatively well organized and individuals respected one another in public. In describing the climate, the majority of interviewees described boards that were respectful and professional. While the overt atmosphere was similar, however, the boards had underlying differences in their relationships. The most obvious climate difference occurred with Euro Salon. In this case, the franchisees, the FAB administrator, the advertising agency representative and even the franchisor, discussed a strained relationship between corporate and the franchisees. Completely counter to Euro Salon's antagonistic relationship, between franchisees and the franchisor, was the Zen Masters NAC. The Zen Masers NAC franchisee board members indicated a high level of respect and liking for Shelly, the franchisor. The Portini's FAC franchisee board members, for the most part, also had high regard for the current corporate president, Matt. These board members, however, had prior history with the franchisor. In the past the franchisee board members had experienced a more top down approach with prior leadership, therefore they were aware of inherent differences that could occur between the franchisees and franchisor.



## Chapter Summary

Three case studies were examined to determine why franchise advisory boards form, what roles these boards play in the eyes of the franchisees and franchisors, what governance processes operated, and what type of stakeholder relationships existed. To gather this data, I conducted 25 interviews, observed four in-person board meetings, attended 14 conference calls, and three board dinners. I also examined meeting agendas, meeting minutes, and bylaws for these boards.

Sharing information and pooling resources appeared to be the primary motivator for the emergence of the three boards examined. There was also evidence that when “signals” of stress arose they encouraged the franchisor to move more quickly in forming the board. The three boards studied also shared certain roles in common. All functioned as sounding boards and allowed franchisee voices to be heard by corporate. Two of the boards, Portini’s and Euro Salon had extensive bylaws and used formal voting procedures. On these boards the franchisees played a key role in decision-making. These two boards also stressed the monitoring aspect of board governance.

Zen Masters focused on the supporters club model. Both franchisee board members and the franchisor board member signaled to external audiences that the board was unified. While all three boards characterized their relationships as collaborative and collegial, the relationships between franchisee and franchisor board members differed. In the case of Euro Salon, there was a high level of distrust between the franchisee board members and the corporate board members. This was not evident in the other two cases. On the contrary, the attitudes between Portini’s and Zen Masters franchisees and franchisors showed respect, trust, and caring. Based on the relationships described by

interviewees and my observations, each board would be classified in a different space in my proposed conceptual framework. See Figure 8 for how the three cases would be classified based on the findings.

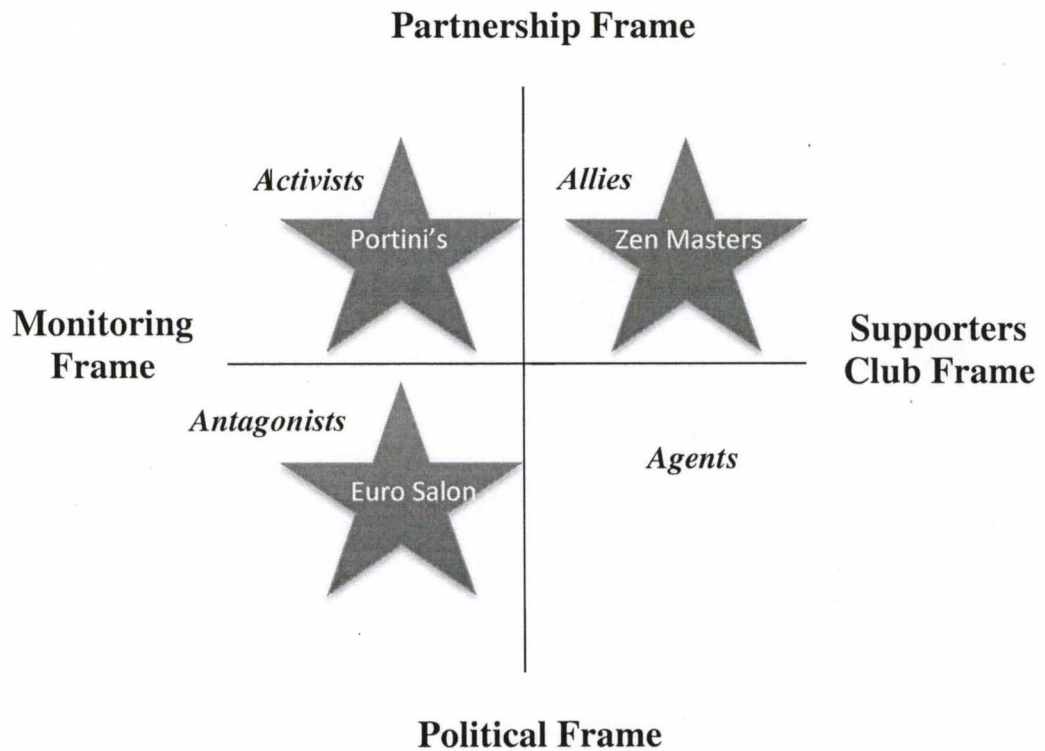


Figure 8. Stakeholder classification for cases

In chapter 6, I compare the findings from Phase 1 and Phase 2. I then present the study's conclusions, outline implications for the franchising sector, and provide recommendations for future research.

## CHAPTER VI

### CONCLUSIONS; IMPLICATIONS; FUTURE RESEARCH

#### **Introduction**

The high-performance board, like the high-performance team, is competent, coordinated, collegial, and focused on an unambiguous goal. Such entities do not simply evolve; they must be constructed to an exacting blueprint. David Nadler, Harvard Business Review, 2004

Due to the continual growth of the franchising sector, mechanisms to enhance the franchisee-franchisor stakeholder relationship will continue to be needed. Strong and effective franchise advisory boards offer one such networking channel. Without a board building process in place, however, Nadler's reflection in the opening quote is unlikely to occur routinely in the franchising community. Similar to many corporate and nonprofit boards that operate without regular evaluations (Huse, 1998; Nadler, 1998; Conger & Finegold, 1998, Drucker, 1990), franchise advisory councils rarely partake in any formal assessment to understand whether they are operating effectively.

As a former franchising executive, I participated in many board meetings. Intuitively, I believe there is value to the overall organization when there is a strong working relationship between franchisees and franchisor board members. Because little literature existed on the social dynamics of franchise board interactions, I chose this as my avenue of research for my dissertation. My purpose was to examine why franchise boards form, what roles they play, how they are governed, and the type of stakeholder relationships that occur. My ultimate goal was to provide organization development scholars and franchise organizations with an empirically-tested, practitioner-friendly map

that could be used to distinguish between different types of stakeholder relationships. Applying this typology, franchise advisory boards could then determine where they currently reside, as well as where they would like to be, on this stakeholder relationship grid. I hope that this tool can be used in OD assessments to provide a meaningful starting point for helping franchise advisory boards to develop strategies that reinforce positive, or change negative, franchisee-franchisor relationships.

I conducted my research in two phases. In phase 1, I interviewed 22 franchisee and franchisor members of advisory boards or councils. Multiple industries and multiple sized organizations were included. In phase 2, I used what Stake (2000) would refer to as instrumental cases to offer insights into franchise board dynamics. I spent nine months exploring board interactions through participant observation, reviewed multiple documents, and secured 25 additional interviews from members, or attendees, of three unique franchise advisory boards.

The contributions of the research are four-fold. First, my study contributes empirical data to support practitioner theory on why these franchise advisory boards form. Secondly, the findings shed important light on the roles these boards play as perceived by franchisee and franchisor members. Thirdly, the findings provide information on how the governance processes, as well as internal and external conditions influence the franchisee-franchisor board relationship. Finally, this study provides a conceptual map for categorizing the types of stakeholder relationships operating in franchising board environments. These findings are more fully explained below; however, it should be recognized that they are inter-related. Why boards form, the roles they play, and their governance processes will contribute to the relationship dynamics.

In this final chapter, I discuss the analytic framework for the study. Next, I review key findings from Phase 1 and Phase 2 of the study. Following this, I address the

studies limitations. Then, I share implications of the findings for franchising and organization development practitioners, including recommendations for practice. Finally, I conclude with avenues for further research on this subject.

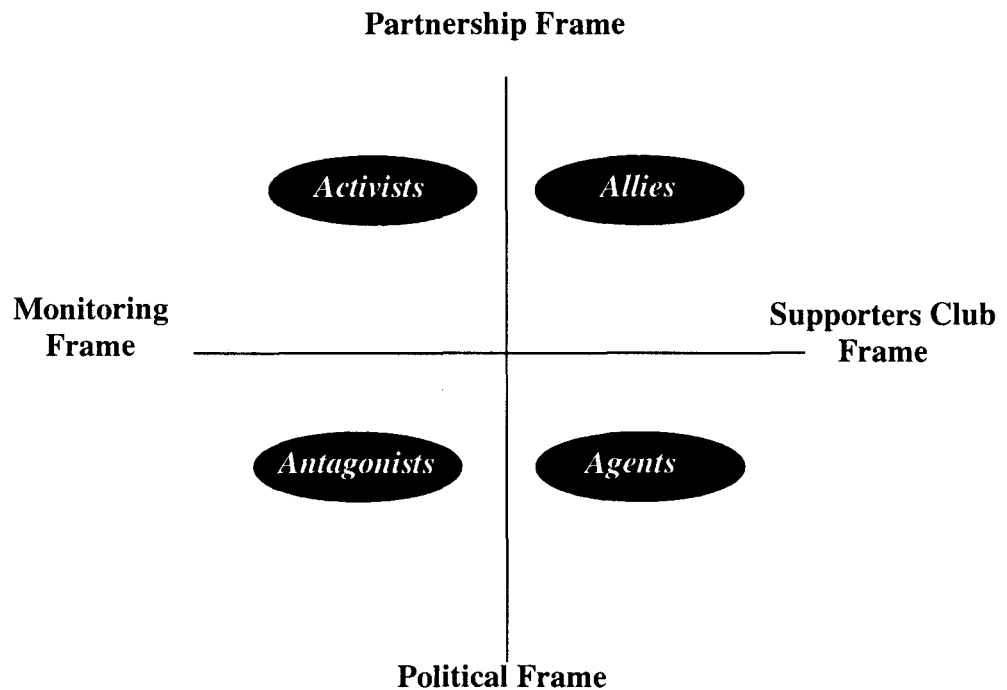
### **Analytic Framework**

Stakeholder theorists (Evan & Freeman, 1988; Phillips, 1997; Van Buren, 2010) argue that stakeholders co-create value for an organization. Furthermore, these theorists maintain that organizations that do not create value for their stakeholders will eventually collapse. It is logical to assume that franchisees co-create financial value for franchisors in that they serve to help these organizations expand geographically into new markets. Hence, it is not surprising that many franchise systems recognize the importance of franchisees as important stakeholders by creating franchise advisory councils. Franchisees, on the other hand, may also take it upon themselves to create independent association boards to assert their stakeholder status.

My aim was to observe board behavior in a natural setting to learn what conditions contribute to the stakeholder dynamics. Having established the stakeholder lens as my telescope, my next step was to search the literature for analytical tools to help identify the socio-political aspects of board behavior. Although, stakeholder theory has given rise to multiple typologies for categorizing various stakeholders for firms (Mitchell, Agle, & Wood, 1997; Frooman, 1999; Ford, Peeper, & Gresock, 2009), none of these typologies specifically addressed the stakeholder interactions between franchisee-franchisor board members. I used Cornforth and Edwards' (1999) four governance models to help me chart these unique relationships.

Cornforth and Edwards (1999) described four frameworks of governance concerning the role of boards, and each has a different theoretical assumption. Agency theory, for example, focuses on the monitoring role. Alternatively, a resourced

dependency view implies power is continually negotiated between the groups. A networking or managerial perspective emphasizes how members partner to add value to the organization. Finally, institutional theory suggests boards serve to legitimize decisions. Using these four governance dimensions, I created a conceptual grid that assumes franchise advisory boards that favor political behavior are less likely to favor partnership. These two dimensions comprise the vertical axis. Likewise, I proposed that boards focused on monitoring are less likely to be characterized in a supporters club frame. These two dimensions became my horizontal axis. Inside of the four quadrants the specific stakeholder relationships are distinguished by the following names: allies, activists, agents and antagonists. Figure 9 provides a review of the conceptual framework.



*Figure 9.* Conceptual framework illustrating four governance processes and stakeholder relationships by quadrant.

Guiding my interviewing strategy was the research conducted on corporate governance by Huse (1998). He used case methodology to study three corporate boardrooms. Huse (1998) found that the relationships between the board members, their behavior towards one another and the corporation, as well as how meetings were conducted, when and where meetings occurred, and what was accomplished in those meetings, all served as factors that influenced the stakeholder relationships. I postulated that these factors would also impact the franchisee-franchisor dynamics operating in franchise advisory board meetings.

### **Conclusions**

The first significant finding was that franchise advisory boards form out of stress on the system and to share communication, as well as to pool resources. These data were consistent with the practitioner reports from consultants and franchising attorneys (Barkoff, 2007; Luxenberg, 1986; Sniegowski, 2010; Wulff, 2005) on why boards form. Phase 1 of the study, in which I interviewed 22 board members, suggested that environmental “stress” was the number one catalyst for board formation. The second most mentioned motive was to share information and pool resources. The three cases studied in Phase 2 revealed similar findings, but the order was reversed. Portini’s FAC, Zen Master’s NAC, and Euro Salon’s FAB were all initiated to leverage information; in the case of the FAB, the board was also formed to pool marketing dollars. Both the Zen Master’s franchisor and two franchisees acknowledged that a controversy in the system provided an additional impetus for creating the NAC. Although Euro Salon’s FAB was not created out of stress, this organization’s independent franchise association (InFA) arose when the organization was facing bankruptcy.

A study by Meek (2010) found that high levels of communication in a franchise system increased emotional connections and that franchisees were less likely to leave these relationships. Franchise advisory boards are a formal method franchisors can use to stay connected. Franchising executives, in both Phase 1 and Phase 2, confirmed that advisory councils served as a conduit for communication in that they provide for both information exchange and knowledge sharing. Given these results, OD practitioners and consultants may want to recommend to franchisors that they create franchise advisory councils early in the relationship to facilitate communication before a crisis or controversy erupts. I would argue that creating a franchise advisory board to build an engaged franchise system, with constructive communication between the franchisor and franchisees, is not the same motive as initiating a franchise council to avoid the franchisees from launching an independent franchise association.

A second finding revealed that the roles of franchise advisory boards were generally consistent with past research on nonprofit boards. Studies on nonprofit boards discussed in Chapter 2 indicated that board functions could be categorized into five groups. These main tasks included providing voice, stewardship, legitimacy, representation, and strategic direction. Findings from Phase 1 and Phase 2 suggested that franchise advisory boards serve as a sounding board, provide representation, legitimize decisions, monitor actions, and aid in decision-making. Interesting to note, however, franchisees and franchisors emphasized different roles.

Divergent views about board roles should not be surprising. Studies about employees' participation on boards suggested workers and owners also stressed different functions (Hammer, Curral, & Stern, 1991). Management and owners were more apt to



give lower ratings on the boards' role of influence. However, employees in these studies gave higher ratings to this role. Adding support to these findings, in Phase 1 of my study, the franchisees focused on the board's role of influencing decisions, while franchisors emphasized the board as a mechanism to provide credibility for decisions. One possible reason franchisees and franchisors had divergent views on the role of advisory boards, however, may be the fact that those interviewed were from different franchise systems.

In Phase 2 interviews, the franchisors and franchisees were aligned on their views regarding their boards' roles. Interestingly, however, each of the three boards emphasized different roles from one another. The Portini's franchisees board members, and the franchisor, all focused more heavily on influencing decisions and protecting the brand. Zen Masters franchisee board members, along with the franchisor, emphasized communication and providing confidence to the external audience of franchisees. Even in the most tension-filled board, Euro Salon, the franchisor, similar to the franchisee board members, acknowledged that the role of the FAB was to guide marketing decisions and to protect franchisees' advertising contributions. I might add, however, that Steve C., the franchisor, indicated that this watchdog mentality was based on an "urban legend" regarding the original owner's attempt to gain control of the advertising funds. It is possible that the franchisor was "educated" by the board members that the purpose of the FAB was to protect franchisees' marketing investments.

A third finding focused on the impact of governance structures, leadership styles, and decision-making norms that served to facilitate, or to hinder, the dynamics of the relationship. These dimensions were visible in the Phase 1 and Phase 2 interviews. With respect to governance, the boards had clear accountable processes and held regular

conference calls and/or meetings. In all three cases studied, the boards operated according to bylaws. Two of the boards had extensive bylaws, while the most junior board, Zen Masters, operated with a three-page set of rules. This board was also still struggling to define its scope. The leadership styles of the franchisors and the chairs of the boards also influenced the stakeholder relationships.

The attitudes of board members towards one another impacted the relationships as well. Trust, transparency, and openness were attributes that many franchisees and franchisors mentioned as highly-desirable for effective advisory boards. Unfortunately, in Phase 1, ten of those interviewed indicated that their boards lacked these qualities. In Phase 2, there was one case in which distrust between the franchisees and franchisor was evident.

The fourth finding confirmed that the conceptual framework of a stakeholder relationship typology provided a reasonable method for categorization. While Phase 1 findings supported the overarching grid classification, my observations of the inner-workings of specific boards offer ancillary evidence. The answers to the interview questions helped identify characteristics that were likely to be evident in each stakeholder type. My findings from Phase 1 and Phase 2 are portrayed in Table 9. Each of the three cases from Phase 2 provides an example of one of the four stakeholder relationships. With respect to the fourth, the “agent relationship,” I relied on Phase 1 data. Three interviewees in Phase 1 focused on the importance of the board conferring legitimacy to decisions, indicated the prevalence of trading favors and discussed a strained relationship.

Table 9 outlines what conditions and characteristics are more likely to appear in each of the four typologies. In the discussion below, I offer a more in-depth review of

each stakeholder classification. While no board will perfectly match the criteria on every metric, a board will have more in common with one stakeholder classification than another.

### **Allies**

These allied stakeholder relationships may appear during the initial formation phase of franchise advisory boards that are initiated by the franchisor. The primary reason to form is likely based on the franchisor's need to facilitate communication as the system grows in size. The Zen Masters NAC offers evidence of how a franchisor became proactive in establishing an advisory council when communication became challenging due to rapid expansion. Interviewees from Phase 1 who indicated their franchisors initiated the advisory council as a forum to share information included Kevin S., Tom C., Ron B., David B., Sam P., and Franklin C.

Enhancing communication, however, is only one motive in an allied relationship. Franchisors also use the council to demonstrate that they are listening to franchisee voices and staying connected to those in the field. This supports Meyer and Rowan's (1977) argument that powerful organizations attempt to design formal structures to demonstrate they are acting in a proper manner and to protect the organization from having its conduct questioned. Meanwhile, franchisees in these allied relationships may use their positions on the board to become part of the inner circle and gain leadership stature in the broader franchise community.

Table 9  
*Stakeholder Classification Matrix*

<b>Franchise Boards</b>	<b>Allies</b>	<b>Activists</b>	<b>Agents</b>	<b>Antagonists</b>
<b>Catalyst for Formation</b>	Facilitate communication	Partner for decision-making	Legitimize decisions	Protect franchisees
<b>Primary Roles</b>	Foremost a communication liaison that can serve as a sounding board. Secondly lends credibility to decisions	Shares knowledge and acts on input from franchisees. Secondly ensures franchisor and the rest of the system are upholding their contractual commitments	Endorses franchisor decisions to reassure broader franchisee community. Secondly serves to alert franchisor about issues	Monitors the interests of franchisees. Secondly has specific legal functions to uphold
<b>Governance Structure</b>	Formal or Informal. Likely to at least use agendas. Less likely to use formal voting process for decision-making. May use elections, or franchisor may appoint the franchisee council members	Likely to have formal bylaws; voting process for decisions outlined; clear method to capture broader franchisees input. Election process with members voted on by franchisees	Formal process in place with visibility to broader franchisee community. Likely to use a voting process for decisions. May use elections, or franchisor may appoint the franchisee council	Likely to have formal bylaws. May have an independent franchise association in place. A voting process for decision-making is apt to be in place. Members of board will be elected by broader franchise community
<b>Leadership of Board</b>	Consultative	Collaborative	Coalition Forming	Controlling
<b>Decision-Making Norms</b>	Discussion	Constructive conflict	Trading favors	Discussion and debates with "majority rules" mandate
<b>Attitudes Toward Franchisor</b>	Characterized by trust. Desire to help the franchisor	Characterized by trust, but with the recognition each side has different interests	Healthy amount of suspicion	Suspicion and distrust of franchisors intentions
<b>Atmosphere</b>	Professional and agreeable	Calm, cordial, with humor used to build rapport	Underlying tension despite outward appearance of calm	Tension-filled
<b>Agreement on Board Performance</b>	Likely that franchisor and franchisees will be closely aligned	Likely that franchisor and franchisees will be closely aligned	Likely that franchisor and franchisees will be closely aligned	Unlikely that franchisor and franchisees will be closely aligned
<b>Social Elements (e.g. Dinners)</b>	Yes	Yes	Yes	No
<b>Meetings Without Franchisors</b>	No	No	Yes	Yes

These allied boards may or may not have formal governance processes. Members may be elected or appointed by the franchisor. The franchisor is apt to focus on the board as a consultant that serves as a sounding board. Decisions will be made by consensus, and there will be little or no use of formal voting procedures. Franchisors are likely to discourage any type of “voting.”

In this allied stakeholder relationship, the trust between franchisees and franchisor will be high. The atmosphere will be professional and cordial. Board members will respect the franchisor and one another. It is also likely that the franchisor will create mechanisms to promote social exchanges, such as dinners that create cohesion. The franchisor will promote the board to the full franchise system to indicate unity. In the allied stakeholder situation, the franchisee board members are less likely to have private one-off meetings without the franchisor.

### **Activists**

An activist stakeholder board may originate as a means for the franchisor to capture the ideas and expertise from franchisees in the field. These stakeholder relationships are built on collaboration. Despite the partnering attitude, however, both sides recognize that the board has a monitoring role to uphold. In the case of Portini's, the monitoring was two-fold. First, the franchisee board members kept the franchisor from becoming myopic. Secondly, these same board members monitored franchisees in the system to uphold procedures and policies. This monitoring of the rank and file constituents was noted by the Portini's founder, but was also evident from the franchisee board members' reactions to a wayward franchisee who had chosen to test a new product without the board's approval.

In an activist relationship, the franchisee board members will influence decisions either formally, through voting mechanisms, or informally, by offering input. Decision-making will be characterized by debates. These debates, however, are typically conducted with a sense of mutual respect between members. It is also likely that humor will be used as a social lubricant. A high level of trust operates among members.

Franchisors in an activist relationship are likely to favor a post-bureaucratic leadership style that emphasizes inclusion and participative management practices (Ford, 2005). This leadership style, for example, was favored by the president of Portini's, who took accountability for the meeting processes, content and execution of meetings, but continually engaged the franchisees in the dialogue. In Portini's case, it was ultimately the franchisees who approved, modified, or voted down ideas.

Relationship dynamics in an activist board will be built through social networking that occurs outside the boardroom. There will be strong communication with the broader franchise community to provide a high level of transparency on decision-making. It is unlikely that franchisee board members will engage in ancillary meetings without the franchisor.

### **Agents**

Agent stakeholder relationships may occur when franchisors have ulterior motives for forming the board. The board may, for example, be created for cooptation purposes (Pfeffer & Salancik, 1978). A cooptation strategy operates when the controlling organization invites others, who may be potentially hostile, to participate on a board as a method to socialize them and thus ties them to the firm's objectives. As noted in Phase 1 interviews, a number of franchisors spoke about the importance of the board's

endorsement of decisions to reassure or convince the broader franchise community about the wisdom of the franchisor's initiatives.

These agent boards may start out as a communication conduit, but some controversy in the system changes the focus of the board. New franchisors may opt to shift from using the board to share ideas and gain input to controlling the board's agenda and coopting the members for political benefit. In Phase 1, Jason T. discussed how his board changed direction with new owners who wanted to "ram things" through using the board members as shills. He also spoke about the plum board meeting locations being referred to by members as "golf tours" (JT, 3/1).

Phase 1 interviewees were quick to point out that these boards often ended up becoming "rubber stamps" for the corporation and were held in low regard by the broader community. Even franchisors were concerned when franchisee board members "went native" and became "de facto" corporate employees (SP, 2/8). These franchisee board members ultimately have less credibility with the broader franchisee community.

In agent relationships, the franchisor focuses on informing and educating franchisees during meetings to promote their agendas. The goal of the board is to be unified to convince the broader system of the value of the franchisor's ideas. Because franchisors want "endorsement," they may use formal voting mechanisms. The element of horse-trading becomes apparent in these relationships. Franchisees on these boards recognize the power they hold and use it in bargaining with the franchisors for self-serving benefits. There is suspicion on the part of each party that the other side "wants something." This suspicion, however, may be masked by collegiality in meetings. Franchisee board members may become disenchanted and thus begin holding separate

meetings without the franchisor. This became evident in Kevin S.'s situation in which the board realized they were shills and then held a separate meeting, without the franchisor present, to listen to franchisee concerns.

### **Antagonists**

The formation of a board due to a crisis or controversy could indicate that the board's stakeholder relationship is antagonistic. Boards in antagonistic relationships may also form with the idea of sharing information and pooling resources. Through ownership changes, however, the board's relationship with the franchisor deteriorates. Such was the case with Euro Salon. The interviewees acknowledged that the board was initiated to pool resources. However, it ultimately came to serve as a watchdog, and it kept corporate marketing people from being able to make unilateral decisions. This was also reported by multiple franchisees and franchisors in my Phase 1 interviews.

At least three possibilities exist when the stakeholder board relationship becomes adversarial. First, if the board has some contractual or legal power over certain financial elements, then the franchisor may have to then participate on the board, or allow the board to function without their input. This occurred with Euro Salon's FAB, which legally controlled the marketing funds. This was also the case with Jerry M. and Tim T., both of whom were interviewed in Phase 1. The franchisors and franchisees were forced to work together on their respective boards; both Jerry, a franchisor, and Tim, a franchisee, candidly admitted that their boards were dysfunctional.

Secondly, in some adversarial relationships, the franchisees operate their own independent franchise associations. Franchisors vary widely in how they respond to franchise independent associations that assume an adversarial stance. In the case of Euro



Salon's InFA, the franchisor had to recognize this entity because of multiple lawsuits. Some franchisors, however, may attempt to ignore these groups, as indicated by Diane P. Meanwhile, other franchisors offer financial support, or meet with these independent groups out of courtesy.

In the third situation, boards in an adversarial relationship that do not have legal rights and were initiated by the franchisor, may either dissolve or transition to an independent association. In Phase 1 interviews, we heard Kevin S. discuss how the franchisee board members recognized their own impotence and therefore, opted to disband. Likewise, we heard from Dave H., whose organization disbanded the board after a meeting in which the franchisees requested the brand be sold. There were also two interviewees who discussed how their franchisor-supported council transitioned to independent franchise associations.

Not surprisingly, these antagonistic boards are likely to be hampered by distrust of the franchisor, and the atmosphere plagued by tension. Importantly, it is not always the franchisor that has the power in these board relationships. Euro Salon's FAB was firmly-established, and the power balance favored the franchisees. Likewise, in Jerry M.'s situation described in Phase 1, the franchisees in that system had more votes on the board than the franchisor.

Based on evidence from Phase 1 interviews, there may also be "separate franchisee only" meetings" held. Such was the case described by Tim T., Dave B, and Dale C. from Phase 1 interviews. In an antagonistic relationship, the franchisor and franchisees may not even agree on the board's overall performance. Such was the case with Euro Salon, in which the franchisee board members graded the FAB's performance

in the A range, while the franchisor gave the board a C. In contrast, Jerry M. admitted that “folks on both sides would say ours [advisory board] is a dysfunctional mess right now.” Jerry, however, went on to say that he believed the board could be structured to make it a strong relationship where there was bonding and mutual respect. Regardless of whether there is agreement on the board’s performance, in these antagonistic relationships, the boards are often crippled by internal dissension and turmoil that bleeds out into the broader franchise community.

### **Limitations**

In addition to a total of 47 interviews, my first-hand insights into board meetings and board conference calls allowed for observation of behaviors and attitudes occurring in their natural settings. I was also given access to bylaws, agendas and meeting minutes to further enhance the robustness of the research. These multiple data collection methods provide evidence of triangulation.

This study, however, does have several limitations, many of which were addressed in Chapter 3. While robust in the quantity of interviews, the number of “in-person” board meetings was restricted to four. This was based on the timing for Phase 2 of the study being completed in eight months. Furthermore, in the case of Euro Salon’s FAB, I was limited to observations via conference calls only. This was due to the FAB’s one meeting being held so early on in my relationship with them, that I had not yet established rapport with the group to gain “in-person” access.

I believe that the most significant limitation to this study is that I am the only investigator. Ideally, multiple researchers engage in observations, develop themes separately, code independently, and then cross-code to provide inter-rater reliability

confidence. Also, multiple researchers can ultimately compare findings and discuss alternative interpretations. An ancillary limitation is that I also risk bias in that my background is in franchising. I attempted to mitigate my personal bias through my journal entries and by continually questioning my interpretations to ensure evidence existed that validated my statements.

### **Implications**

The conditions necessary for a healthy franchise board are similar to the conditions necessary for a healthy organization. According to Morse (1968) healthy organizations include “cooperative group relations, consensus, integration, and commitment to the tasks, creativity, authentic behavior, freedom from threat, full utilization of a person’s capabilities, and flexibility.” Similar language was used by Miles (1966) when he described a healthy organization as one that had a reasonable degree of cohesiveness. Likewise, Schein (2004) also focused on the need for the organization to have an internal climate of support. When board stakeholder relationships are mired in political battles, or focused on quid pro quo efforts, they are functioning below the horizontal axis on the stakeholder map and a strategy is needed to “stop the music” (Cummings & Worley, 2006) and examine the dynamics of the franchisee-franchisor relationship.

### **Implications for OD Practitioners**

I embrace the idea that “theory informs practice,” and I believe the findings from this study offer a variety of implications for both young and mature franchise organizations. This dissertation proposes a new tool, termed a stakeholder relationship map, which can begin to assess the dynamics of franchise advisory board relationships.

The idea is for franchise board members to examine their relationships and to determine where on the grid they currently reside. This can be a starting point for strengthening franchisee-franchisor board partnerships.

Diagnosing where on the stakeholder grid a board operates entails three tasks: 1) understanding the historical context of why the board was formed, 2) defining the critical roles the board plays, and 3) examining the internal and external environments. These internal and external conditions include the governance processes, leadership styles, decision-making norms, and the attitudes of board members. To accomplish these tasks, a series of interviews would need to be conducted by an OD professional.

Ideally, this would be just the first step a franchise advisory board could employ in an annual assessment. Additional steps might include:

1. Seeking more information on the board's accomplishments and understanding when and how those occurred.
2. Identifying what triggers issues in the franchise system.
3. Interviewing or surveying franchisees in the broader system to understand their perceptions of the franchise advisory board's role and effectiveness.

### **Implications for Franchise Advisory Boards**

Effective boards work together as teams, and there is mutual trust and respect that allows for constructive conflict to take place (Dulewicz et al. 1995). From my research, it is apparent that more attention needs to be paid to developing allied and activist stakeholder relationships on franchise advisory boards to build cohesive franchise organizations. In allied and activist environments, there is an open communication exchange and individuals share views without fear of reprisal. These types of stakeholder

board relationships strengthen the decision-making process of the boards. Furthermore, these relationships foster communication with the broader franchise system that is more likely to be well-received and well-respected.

Ongoing effort is needed for boards to operate above the horizontal axis and maintain an activist or allied relationship. The insights that I offer below for advisory boards are based on my research findings, and from franchising practitioner literature:

1. An advisory board should be initiated early in the life cycle of a franchise organization and be sponsored by the franchisor (Dwyer, 2008; Ingage, nd; Wulff, 2005). The franchisor should handle the meeting logistics and costs associated with the meetings (Ingage Consulting, nd).
2. The board should have a clear purpose and the roles of the board members should be clear to all (Dwyer, 2008; Ingage Consulting, nd; Wulff, 2005).
3. Detailed bylaws should be created by the franchisor (Wulff, 2005) in conjunction with several well-respected franchisees in the system. A lawyer should be involved to ensure that no anti-trust laws are broken (Dwyer, 2008).
4. Franchisee board members should be elected by the franchise community based on some system, this may be geographic, or by some other criteria appropriate for the organization. The chair of the board should be elected and should not be the franchisor.
5. The board should have decision-making authority on an agreed upon span of issues and there should be a formal voting procedure. Issues not in the boards span may be discussed for input only.

6. The chair of the board and new board members receive training in listening skills, engaging in constructive conflict, and communicating with those they represent.
7. Regular communication must occur both horizontally, among board members, and vertically, between the board and the broader franchise community (Dwyer, 2008; Ingage Consulting, nd). Communication from the board to the franchisees at large should be a joint effort between the franchisees and the franchisor.
8. Processes are built into the board to hold franchisee members accountable for meeting with their constituents.
9. Social capital is developed with board members by having at least two in-person meetings a year, including board dinners prior to, or after, the meetings. These dinners and trips are communicated to the broader franchise community to ensure transparency.
10. Annual board evaluations are conducted by an independent consultant. The report is then issued to the board and to the broader franchise community in the spirit of openness.
11. Successful franchise organizations with advisory boards are benchmarked to gain insights on their governance processes. The board is willing to adopt new processes to continually improve.
12. Given the possibility for ownership change, advisory boards need some built in mechanism to ensure survival.

### **Future Research**

The stakeholder map that emerged from this study could provide franchise organizations with a simplified way to diagnose their board's relationship. This research

supports corporate and nonprofit board literature (Brown, 2007; Curran & Totten, 2010; Dulewicz et al., 1995; Van Buren, 2010) that recommends that boards clarify their roles, assess their relationships, and, if necessary, introduce OD interventions to help improve effectiveness. My research was exploratory in nature, using interviews and case studies to assess the fruitfulness of the proposed stakeholder map. Future research could quantitatively test the framework with the creation of a survey tool. A survey would offer a more rapid way to distinguish the type of stakeholder relationships operating. While I discussed several factors that can facilitate or hinder board relationships (e.g., governance processes, leadership, board member attitudes), other variables may also have impact. Additional research could extend the list of variables that influence the board relationship dynamics. Past research on corporate boards has shown that mature boards, as opposed to newly formed boards, have unique conditions impacting the relationship (Huse, 1998). An examination of franchise boards in different life stages could shed light on that subject.

Many interviewees in this research study noted that, while it didn't always exist in their situations, trust in the franchisor-franchisee relationship was an essential ingredient for board effectiveness. This data supports prior research that showed trust and commitment were variables that impacted relationships (Dickey, McKnight, & George, 2007; Morgan & Hunt, 1994). How to build trust could be further explored in the context of franchise advisory boards. Such data could help OD interventions that focus on building collaboration.

Future research might also focus on what type of stakeholder relationship occurs when boards are led from the "front," where the corporation proposes the strategies and

leads the conversation, versus boards that are led from “behind,” where the firm takes a backseat and allows other members to trigger the discussions (Parker, 2007). Leadership theories could be explored (e.g. Fiedler, 1967; Ginnett, 2005; Hackman, 1990) to determine whether the chair’s leadership style has an impact on the type of stakeholder relationship that operates within a franchise board.

An assumption, implicit in this research, was that boards would benefit from evaluations that distinguish the type of stakeholder relationship operating. In addition, I suggested that annual franchise advisory board evaluations could help identify whether OD change efforts were needed. Prior studies of nonprofit boards (Brudney & Murray, 1998; Holland & Jackson, 1998) have shown that intentional efforts to improve board performance have enhanced the effectiveness of boards. Moving stakeholder relationships, however, proves both challenging and time consuming (Polonsky, Schuppisser, & Beldona, 2002). Future action research efforts could help ferret out whether a change to franchise advisory board conditions results in moving the stakeholder relationship, and helps achieve more synergistic board behavior.

Ultimately, however, I believe my research achieved the purpose of illuminating how stakeholder relationships on franchise boards could be categorized. By considering the reasons why boards form, the roles that franchisors and franchisees ascribe to their boards, the governance patterns used in action and the attitudes of board members towards one another, one can help identify what type of relationships operate. I recall, from my Phase 1 interviews, Jerry M.’s plea for a better way to “hardwire a franchise board.” Jerry wanted something a board could “plumb into their system to help create transparency.” He added that finding this would be “nirvana” (JM, 5/16). Jerry, it is my



sincere hope that this study will offer a start in assisting the franchise community build better advisory boards, and will spur additional research to help discover “nirvana.”

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## APPENDIX A

### IRB Approvals



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**INSTITUTIONAL REVIEW BOARDS**

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University of Louisville  
MedCenter One, Suite 200  
501 E. Broadway  
Louisville, Kentucky 40202-1798

Office: 502-852-5188  
Fax: 502-852-2164

**To:** Githens, Rod  
**From:** The University of Louisville Institutional Review Board (IRB)  
**Date:** Thursday, February 25, 2010  
**Subject:** IRB Correspondence

**Tracking #:** 10.0081  
**Title:** Franchise boards: Exploring the stakeholders

---

This study was reviewed on 2/24/2010 and determined by the chair of the Institutional Review Board that the study is exempt according to 45 CFR 46.101(b) under category (2) Research involving the use of educational tests (cognitive, diagnostic, aptitude, achievement), survey procedures, interview procedures or observation of public behavior, unless: (i) information obtained is recorded in such a manner that human subjects can be identified, directly or through identifiers linked to the subjects; and (ii) any disclosure of the human subjects' responses outside the research could reasonably place the subjects at risk of criminal or civil liability or be damaging to the subjects' financial standing, employability, or reputation. The study is exempt only if information that could identify subjects is not recorded.

Since this study has been found to be exempt, no additional reporting, such as submission of Progress Reports for continuation reviews, is needed. If your research focus or activities change, please submit a Study Amendment Request Form to the IRB for review to ensure that the study still meets exempt status. Best wishes for a successful study. Please send all inquires and electronic revised/requested items to our office email address at [hspofc:louisville.edu](mailto:hspofc:louisville.edu).

*Patricia K. Leitsch*

Board Designee: Leitsch, Patricia

Letter Sent By: Perkins, Erin, 2/25/2010 10:34 AM

*Full Accreditation since June 2005 by the Association for the Accreditation of  
Human Research Protection Programs, Inc.*





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**INSTITUTIONAL REVIEW BOARDS**

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University of Louisville  
MedCenter One, Suite 200  
501 E. Broadway  
Louisville, Kentucky 40202-1798

Office: 502-852-5188  
Fax: 502-852-2164

### **Expedited - Amendment - Exemption**

**To:** Githens, Rod  
**From:** Human Subjects Protection Program Office  
**Date:** Friday, March 11, 2011  
**Subject:** No action required

**Tracking #:** AMEND-3700 (10.0081)  
**Title:** Franchise boards: Exploring the stakeholders

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Determination Date: 03/08/2011

The following items have been received by the Human Subjects Protection Program Office and were reviewed by the chair/vice-chair of the Institutional Review Board (IRB):

- Research Protocol, dated 02/23/2011
- Preamble Consent, not dated
- Observation Checklist, not dated

The modifications include:

- Revised protocol to include observations of franchise boards to understand the dynamics of these boards, as well as validate what was learned from the interviews of franchisees and franchisers.
- No change to the risk/benefit ratio.

This information has been reviewed and determined by the chair of the Institutional Review Board (IRB) not to change the exempt status of this study.

Thank you for keeping us informed of your study.

*Patricia K. Leitsch*

Board Designee: Leitsch, Patricia

Letter Sent By: Peek, Tamara, 3/11/2011 7:59 AM

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Human Research Protection Programs, Inc.*





## APPENDIX B

### Interview Questions

Ask for background of interviewee.

- What type of board, council, or association does your system have in place?
- Why did this board form?
- What roles does this board play?
- How would you classify these roles in terms of priority?
- How would you describe the structure of the board? Probes on:
  - How are the board members determined?
  - What “rules” govern this board?
  - How often does the board meet?
  - Who participates on the board?
  - How do franchisees communicate with their constituents?
  - What areas does the board spend most of its time on?
  - How does the franchisor seek input on programs and policies?
- How are problems identified that come to the board?
- How does the relationship between board members and franchisors impact the rank and file franchisees
- How do franchisees on the board deal with conflicts of interest that can place them between the franchisor and those franchisees they represent?
- What norms are used to generate agreement on the board?

- How do you think the “x” feels about the board?
- What types of tension exist on the board?
- How would you evaluate the franchisors’ responsiveness to board members issues or concerns?
- What attributes are needed to have a successful board relationship?

Final broad question: What research would you like to have done that would help franchisors and franchisees with respect to boards?

## APPENDIX C

### Observation Checklist

Observation Checklist					
Number of Times	RQ	Franchisee Board Member		Franchisor Board Member	
		Observed	Not Observed	Observed	Not Observed
Questions asked by franchisees	4				
Questions asked by franchisors	4				
Humor is used	4				
Laughter occurs	4				
Voices are raised	4				
Caustic remarks occur	4				
Sidebar conversations occur	4				
Decisions agreed upon	2				
Items tabled	3				
Voting occurs	3				
Breaks occur	3				
Requests for assistance occur	2				
Reference to rank & file franchisees	2				
New ideas are proposed	2				
Ideas are shot down	4				

## APPENDIX D

### Contact Summary Form: Franchise Advisory Board Study

Interviewed:

Title:

Franchisee:

Franchisor:

Both:

Other:

Date of Interview:

Today's Date:

In-Person:

Site:

Length:

Phone:

Length:

Background of Interviewee:

Company Info:

What were the main issues that struck you in this contact:

Summarize the info you got or failed to get for each question?

Anything that struck you as salient, interesting, or important with this contact?

Who did they refer you to for further exploration?

What new questions do you have based on this interview?

## APPENDIX E

### Case Sources

#### **Euro Salon**

<b>Code</b>	<b>Source</b>	<b>Date</b>
ESS_A_05_23	Emailed agenda received on 5/23/11	5/23/11
ESS_A_07_25	Emailed agenda received on 7/25/11	7/25/11
ESS_A_08_29	Emailed agenda received on 8/29/11	8/29/11
ESS_A_09_26	Emailed agenda received on 9/26/11	9/26/11
ESS_A_10_25	Emailed agenda received on 10/25/11	10/25/11
ESS_MN_05_25	My meeting notes from 5/25 conference call	5/25/11
ESS_MN_07_27	My meeting notes from 7/27 conference call	7/27/11
ESS_MN_08_31	My meeting notes from 8/31 conference call	8/31/11
ESS_MN_09_28	My meeting notes from 9/28 conference call	0/28/2011
ESS_MN_10_26	My meeting notes from 10/26 conference call	10/26/11
ESS_OMM_05_25	Official meeting minutes	5/25/11
ESS_BL_11_07	Bylaws dated November 7, 1997	11/7/87
ESS_PS_ND	Policy Statement	ND
GA, 3/30; GA, 8/22	Interview Adam G.	3/30/11; 8/22/11
SC, 9/29	Interview Steve C.	9/29/11
JR, 10/3	Interview John R.	10/3/11
DN, 9/30	Interview Nelson N.	9/30/11
TN, 10/7	Interview Theresa N.	10/7/11
SO, 10/17	Interview Sean O.	10/17/11
DB, 10/21	Interview David B.	10/21/11
Observation, 5/25	Observations from 5/25 conference call	5/25/11
Observation, 7/27	Observations from 7/27 conference call	7/27/11
Observation, 8/31	Observations from 8/31 conference call	8/31/11
Observation, 9/28	Observations from 9/28 conference call	9/28/11
Observation, 10/26	Observations from 10/26 conference call	10/26/11

#### **Portini's**

<b>Code</b>		
P_A_03_28	Agenda received on 3/28/11 for board meeting	3/28/11
P_A_05_06	Emailed agenda received on 5/6 for 5/19 conference call	5/6/11
P_A_06_14	Emailed Agenda received on 6/14 for 6/23 conference call	6/14/11

P_A_07_16	Emailed Agenda received on 7/16/11 for 7/28 conference call	7/16/11
P_A_09_26	Agenda received on 9/26/11 for board meeting	9/26/11
P_BL_10_14	Bylaws dated October 14, 2011	10/14/11
P_OMM_03_28	Official meeting minutes from March 28th board meeting	3/28/11
P_OMM_5_19	Official meeting minutes from May 19th conference call	5/19/11
P_OMM_06_23	Official meeting minutes from June 23rd conference call	6/23/11
P_OMM_07_28	Official meeting minutes from July 28th conference call	7/28/11
P_MN_03_28	My meeting notes from March 28th board meeting	3/28/11
P_MN_5_19	My meeting notes from May 19th conference call	5/19/11
P_MN_06_23	My meeting notes from June 23rd conference call	6/23/11
P_MN_07_28	My meeting notes from July 28th conference call	7/28/11
P_MN_09_25	My meeting notes from Sept 25th board meeting	9/25/11
MP, 3/21; MP, 10/3	Interview Matt P.	3/21/11; 10/3/11
KM, 4/28; KM 9/26	Interview Ken M.	4/28/11; 9/26/11
JL, 9/26	Interview Joe L.	9/26/11
MG, 9/25; MG, 9/26	Interview Mitchell G.	9/25/11; 9/26/11
BH, 8/2; BH, 9/26	Interview Betty H.	8/2/11; 9/26/11
GH, 8/2; GH, 9/26	Interview Gordon H.	8/2/11; 9/26/11
MA, 4/11; MA 9/26	Interview Marty A.	4/11/11; 9/26/11
KF, 4/20; KF, 9/26	Interview Karen F.	4/20/11; 9/26/11
BM, 7/5	Interview Bruce M.	7/5/11
DB, 7/5	Interview Dee B.	7/5/11
DS, 9/26	Interview Danny S.	9/26/11
BP, 3/28	Interview Beverly P.	3/28/11
Observation, 3/29	Observations from March 29th board meeting	3/29/11
Observation, 3/29	Observations from March 29th board dinner	3/29/11
Observation, 5/19	Observations from May 19th conference call	5/19/11
Observation, 6/23	Observations from June 23rd conference call	6/23/11
Observation, 7/28	Observations from July 28th conference call	7/28/11
Observation, 9/24	Observations from 9/24/11 board dinner	9/24/11
Observation, 9/25	Observations from Sept 25th board meeting	9/25/11
<b>Zen Masters</b>		
Z_A_3_7	Agenda emailed for 3/9/11 conference call	3/7/11
Z_A_3_30	Agenda emailed for 3/30/11 conference call	3/30/11
Z_A_4_25	Agenda emailed for 4/27/11 conference call	4/25/11
Z_A_5_20	Agenda for board meeting provided on 5/20	5/20/11
Z_A_6_20	Agenda emailed for 6/21/11 conference call	6/20/11
Z_A_8_11	Agenda emailed for 8/31 conference call	8/11/11
Z_A_9_12	Agenda emailed for 9/18 conference call	9/12/11
Z_A_10_19	Agenda emailed for 10/19 conference call	10/19/11

Z_MN_03_9	My meeting notes form 3/9/11 conference call	3/9/11
Z_MN_3_31	My meeting notes from 3/31/11 conference call	3/31/11
Z_MN_4_27	My meeting notes from 4/27/11 conference call	4/27/11
Z_MN_5_20	My meeting notes from 5/20 board meeting	5/20/11
Z_MN_6_21	My meeting notes from 6/21/11 conference call	6/21/11
Z_MN_8_31	My meeting notes from 8/31 conference call	8/31/11
Z_MN_9_18	My meeting notes from 9/18 board meeting	9/18/11
Z_MN_10_19	My meeting notes from 10/19 conference call	10/19/11
SE, 4/19; SE, 10/3	Shelly E. interview	4/19/11; 10/3/2011
TG, 8/14; TG, 9/23	Travis G. Interview	8/14; 9/23
TD, 10/4	Dusty D. interview	3/16/11; 10/4/11
TC, 9/29	Tori C interview	9/29/11
PE, 9/29	Pete E. interview	9/29/11
JD, 9/19	Jay D. interview	9/19/11
Observation, 3/9	Observations from March 9th conference call	3/9/11
Observation, 3/31	Observations from March 31st conference call	3/31/11
Observation, 4/27	Observations from April 27th conference call	4/27/11
Observation, 5/19	Observations from May 19th board dinner	5/19/11
Observation, 5/20	Observations from 20th board meeting	5/20/11
Observation, 6/21	Observations from June 21st conference call	6/21/11
Observation, 8/31	Observations from August 31st conference call	8/31/11
Observation, 9/18	Observations from Sept 18th board meeting	9/18/11
Observation, 10/19	Observations from October 19th conference call	10/19/11

## CURRICULUM VITAE

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